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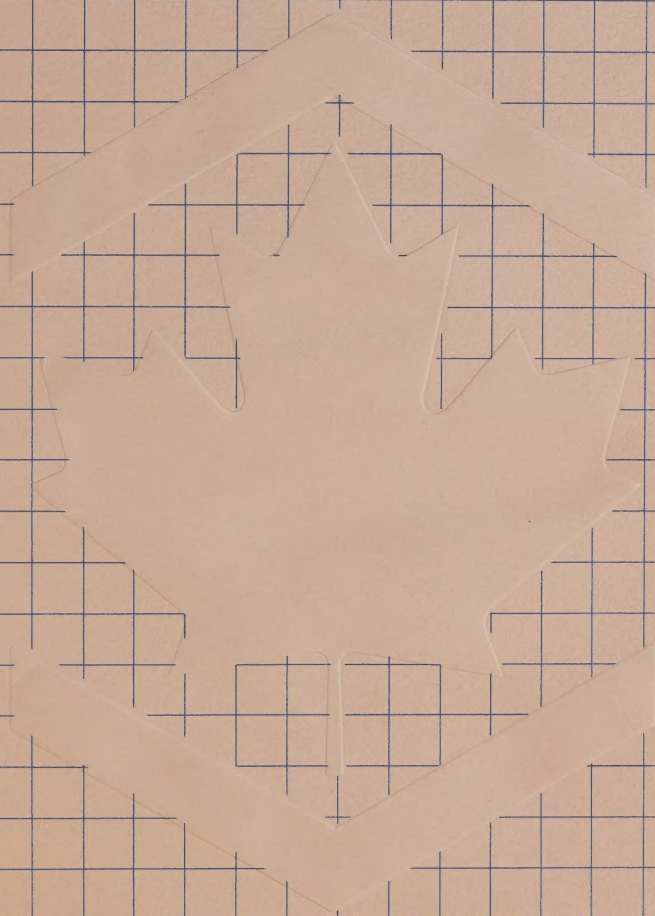


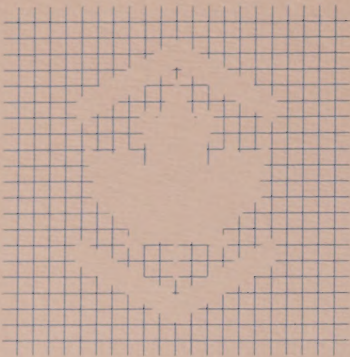


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Economic Council of Canada Conseil économique du Canada

Chairman's Office Cabinet du président

June 30, 1981

The Right Honourable
Pierre Elliott Trudeau, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

:D

Sir

I have the honour
to the activities of the
fiscal year ending
Economic Council

Yours sincerely

David W. Slater

David W. Slater
Chairman

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A message from the Chairman



The Canadian humorist Stephen Leacock once said of economists that "apprehension is their business."

Economists, as well as most Canadians, are indeed apprehensive about the state of the Canadian economy, with high interest rates, rising inflation, falling productivity all appearing to be beyond our control.

Public apprehension before such alarming signs is only natural, but it is my belief that it also points to the fact that Canadians are quickly being pushed to a point where they will have to make and implement a number of crucial decisions.

The central issue we face is whether it is possible to beat inflation without provoking intolerable levels of unemployment. Do we punish people for inflation as some countries have done or do we learn to live with it as others are doing? Or is there a wiser, middle path better suited to the particular problems of Canada?

And while wrestling with this central dilemma what do we do about energy pricing, about conservation and the goal of energy self-reliance? And what of the added contention between governments on how to share the revenues from our resources?

Other issues further confuse an already uncertain economic climate. One such, is the renewal or replacement of the agreements which govern financing arrangements for federal-provincial programs of equalization payments and funding for medical insurance, hospital care and post-secondary education. The Act which governs the equalization arrangements expires in 1982, and other arrangements come open to change.

The present financing arrangements were built up from a historic situation in which Alberta, British Columbia and Saskatchewan were have-not provinces. The current negotiations will unfold in a very different context, where the imbalances between provinces are greater than ever, where the prospects

ERRATUM

Page 9, central column

The following sentence should be added at the end of the first paragraph:

"It is being studied at the microeconomic level by the project group on Technological Change, Productivity and Growth".

growth in the national economy are fiercer, and where the fiscal position of the federal government has weakened. Meanwhile, the need for enormous investments in the country's future development will remain a high priority, despite tougher times. Canadians will need to make decisions to ensure that the country's wealth is utilized to develop our energy resources, to build infrastructure and maintain social programs.

The Economic Council sees itself as the centre of the process whereby these decisions will be made. The work of the Council on the general prospects of the economy and on labor markets, fiscal federalism, government regulation, financial markets, Western development and other key areas responds directly to the issues that are causing public apprehension and on which decisions need to be taken and policies implemented.

The truth may be that economists are at their best in a climate of apprehension. In any event, the Economic Council is making a number of changes in its operations to adapt to the current climate.

The Annual Review, which represents the Council's effort to organize all of its work into a unified view of the medium- and long-term prospects for the economy, has normally been published once a year, in the fall. Beginning in 1981 we will publish an update of the review each spring. The review has in the past always included material on a particular aspect of the economy. This "theme" material will in future be published separately and the review will concentrate exclusively on the Council's analysis of economic performance and the prospects for future growth.

The review will also analyse the effects and consequences of current policies, and Council members will put forth a strong, positive view of solutions the Council believes would be effective in dealing with economic problems.

The Council's Performance and Outlook Group has been carrying out simulations for outside organizations on the Council's computer model, CANDIDE 2.0.

We intend through such simulations, and other efforts to increase the Council's role in supporting the work of Parliamentary committees and other similar groups.

The Council's regular program of economic research results in the publication of a number of major reports and many supporting studies, every year. In the past year these have included the exhaustive report on the economy of Newfoundland, scores of technical papers on government regulation of key industries, and many smaller studies that examined questions such as income disparities among linguistic groups in Montreal and the effects of Canadian investment in developing countries.

The need for better information on economic issues and for public discussion of future options has led us to plan our research projects to include an emphasis on communication with the public. Our efforts in this direction were continued in the last year through a systematic program of contacts with the national media, the planning of public conferences, and appearances by Council staff on panels and interview programs to discuss issues raised in our studies.

The Council's magazine *Au Courant* is now distributed to 45,000 readers across the country and continues to provide the general public with quick and effective access to the work of our researchers. The magazine's frequency of publication and distribution will be further increased.

The Council's research program closely follows the evolution of public issues. A new Explorations group is being created to increase our sensitivity to issues and problems that will need to be addressed in the future. The group may, for example, examine

the relations between Canada and developing countries for issues that might require detailed study. The group might also look into such areas as tax reform to help determine how the Council might best contribute to the discussion of alternatives in that field.

Finally, I would come back to Mr. Leacock's observation. It's useful to remember that apprehension is a healthy response to danger and the need to act. We at the Economic Council of Canada see the present climate of public apprehension as a sign that Canadians are ready to respond to the problems of the economy, by taking the decisions that will set Canada on the path of renewed growth, with benefits for all Canadians.



The Economic Council

The Economic Council of Canada was created by Parliament in 1963 in the belief that there was a need for an independent organization that would provide the kind of comprehensive and continuous analysis of Canada's economic prospects that would help ensure the country's continued economic growth and well-being.

The mandate set out in the Economic Council of Canada Act was quite specific and enjoined the Council not only to work for economic prosperity but also to be concerned that rising living standards would benefit all Canadians.

The Act stipulated that the Council was to advise the government "on how Canada can achieve the highest possible levels of employment and efficient production so that the country can enjoy a high and consistent rate of economic growth and so that all Canadians will share in a rising standard of living."

The Council performs three principal roles.

These are:

- to conduct economic analysis and undertake studies with a view to providing a greater understanding of the functioning of the Canadian economy and its prospects for the future;
- to make recommendations to government on economic policy measures to improve Canada's economic performance;
- to educate and inform the Canadian public on economic problems and to stimulate, through the media and other forums, the public discussion of policy solutions and economic strategies.

A number of organizations and institutions have emerged in Canada since the Council's creation that also set themselves the task of analyzing and proposing economic policy. The Economic Council remains, however, the only national body with a special mandate through Parliament. It has also

over the years staked out a particular claim to expertise in assessing the medium- and long-term prospects for economic performance, a task that is as much of an art as a science.

The Council is made up of an appointed board of up to 28 members, supported by a full-time staff of economists, and other specialists who work under the direction of a Chairman and two full-time directors.

The appointed members of the Council are representative of various sectors of Canadian society. They assist in setting the organization's research priorities and play a role in the preparation of major studies, such as the Annual Review. In their consideration of these studies, the members seek to reach a consensus view on which their recommendations are based but individual members are also free to publish dissenting opinions.

In addition to its regular program of research the Council at times undertakes special projects referred to it by the Prime Minister of Canada.

In the recent past, these have included a major study of government regulation in Canada and a detailed analysis of the economy of Newfoundland.

The Council's annual review of the Canadian economy is published every fall. The review provides an assessment of the medium- and long-term prospects for the economy and looks at the possible impact of various policy options. Recommendations are made to deal with problem areas.

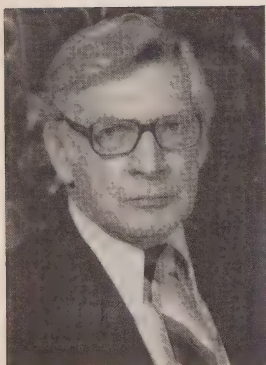
Economic activity involves virtually every aspect of daily life and the Council's work has ranged from studies on logging in Newfoundland to the cost of housing in Alberta, with enquiries into income disparities among language groups in Montreal, the price of eggs, pension reform, and many other areas that together make up Canada's complex economy.

Since its creation, the Council has had a considerable influence on national economic policy. The Council's early

work on education is credited with encouraging massive public support for education. Its studies on labor markets and manpower requirements led to the creation of government-supported programs to train Canada's labor force and the Council's systematic concern for regional development and economic disparity between regions led to the formulation of policies and the creation of a federal department to deal with the issues the Council's research had identified.

The Council's current research into economic issues reflects concerns shared by most Canadians over high inflation, high interest rates, unemployment and the need for Canada to adopt policies that will exploit its potential for economic growth and energy self-sufficiency.

Members of the Economic Council of Canada



David W. Slater
Chairman



Harry W. Arthurs
Professor,
Osgoode Hall Law School
York University
Downsview, Ontario



Ian A. Barclay
Chairman of the Board
British Columbia
Forest Products Limited
Vancouver, British Columbia



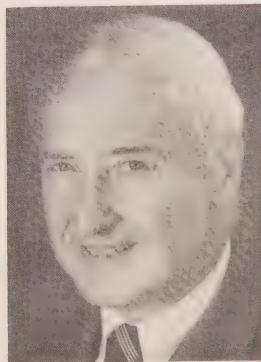
David Blair
Vice-President
Atlantic Region
Canadian National
Moncton, New Brunswick



Norman A. Bromberger
General Manager and
Chief Executive Officer
Saskatchewan Co-operative
Credit Society
Regina, Saskatchewan



Robert B. Bryce
Retired Public Servant
Ottawa, Ontario



William A. Dimma
President
A. E. LePage Limited
Toronto, Ontario



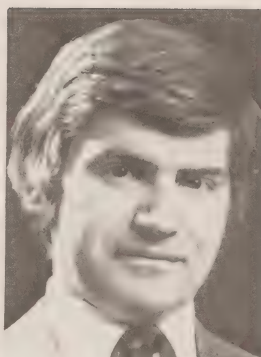
Mildred S. Dobrin
Vice-President and
General Manager
Miracle Mart
Montreal, Quebec



Nicole Forget
Student, Faculty of Law
University of Montreal
Montreal, Quebec



Kalmen Kaplansky
Labour Consultant
Former Canadian Director
International Labour Organization
Ottawa, Ontario



Pierre Laurin
Director
École des Hautes Études
Commerciales
Montreal, Quebec



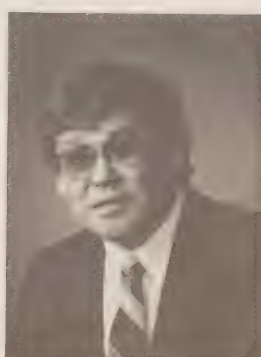
Pierre Lortie
Senior Associate, SECOR
Montreal, Quebec



James A. McCambly
Executive Secretary
Canadian Office
Building and Construction
Trades Department
A. I. O. C.
Ottawa, Ontario



Alastair H. Ross
President
Allaro Resources Limited
Calgary, Alberta



Patrick Shimbashi
Farmer
Taber, Alberta

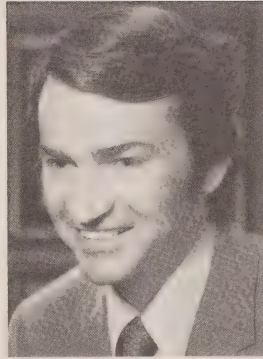


J. Hugh Stevens
Chairman and Chief Executive
Canada Wire and Cable
Company Limited
Toronto, Ontario

Retirements, resignations and appointments



H. Ian Macdonald
President
York University
Downsview, Ontario



Peter H. Pearce
Professor of Economics
and Forestry
University of British Columbia
Vancouver, British Columbia



Ralph G. M. Sultan
Senior Vice-President
The Royal Bank of Canada
Calgary, Alberta



Roy Vogt
Professor of Economics
St. Paul's College
University of Manitoba
Winnipeg, Manitoba

During the year ending March 31, 1981, the terms of the following members expired:

A. M. Runciman (May 2, 1980)
I. A. Barclay (March 16, 1981)

The following members resigned:


J. A. Brown (July 24, 1980)
R. J. Lévesque (July 31, 1980)

The following full-time member was appointed Chairman:

David W. Slater (September 18, 1980)

The following new members were appointed (March 5, 1981):

P. Lortie
A. H. Ross
P. Shimbashi
R. Vogt



Research Program

The Council's research program is conducted by several project groups, comprised of professional staff with advanced training in economics and varied experience in universities, government and industry.

The full-time staff is often augmented by consultants with specialized knowledge. The project areas change and evolve regularly and personnel may contribute to more than one project in the course of the year.

Annual Review

The Council's annual assessment of the medium- and long-term prospects of the Canadian economy is published each fall. In the annual review, the Council seeks to provide an analysis of the performance of the Canadian economy, to look at the effectiveness of current economic policies and to set out policy options that the Council believes will improve the country's economic well-being. The recommendations in the annual review arise from the deliberations of the Council's appointed members, and therefore represent the official view of the Council as a whole.

The seventeenth review *A Climate of Uncertainty* singled out energy pricing as a crucial consideration for future economic performance and made recommendations in this regard. As in the past, this year's review also dealt with an economic issue of current concern, growth and productivity.

This part of the review prepared with the assistance of the Growth and Productivity Group, with contributions from the team preparing the Newfoundland report, the Technological Change Group and the CANDIDE Group, examined the low rates of productivity growth in Canada over the past decade. Productivity is a measure of the effective use of human resources, materials and methods in the process of producing goods and services. The review, which provided an interim report on the Council's continuing work in the field, drew

comparisons of productivity with other countries and between regions of Canada; discussed the impact of workers' skills, energy prices, industrial innovation and other influences on productivity performance and examined the impact of technological change on productivity and output.

Beginning with 1981-82, the annual review process will undergo a number of changes. The new Performance and Outlook Group will continue the work of developing, revising and updating the CANDIDE model. The "theme" material which was integrated in the review in past years will be published separately in future.

The review to be published in the fall of 1981 will concentrate solely on economic performance and outlook.

Each spring, beginning in the spring of 1981, the Council will publish an updating of the performance and outlook data published the previous fall.

CANDIDE Group

The CANDIDE Group develops and updates the Council's computerized econometric model, CANDIDE 2.0. Use of the model allows the group to measure current economic performance and to simulate performance under various policy options.

Aside from its work on the annual review and in support of research within and outside the Council, the CANDIDE Group pursues an active research program, which produced six studies in the past year.

The CANDIDE Group underwent a change in its responsibilities in the course of the last year. The name of the group also changed to the Performance and Outlook Group, to better represent these new responsibilities.

The effectiveness of the CANDIDE Group in adapting the model to new conditions was evident in its rapid assessment of the National Energy Program presented within the federal budget.

The group also carried on an active program of helping outside users apply the CANDIDE Model to individual problems.

Simulations were carried out for Atomic Energy of Canada exploring the impact of increased substitution to electricity under a variety of international pricing assumptions.

Several simulations were prepared for the Ministry of State for Economic Development exploring the economic impacts of various domestic and international energy pricing scenarios.

Agriculture Canada received simulations assessing the impact on the economy of the 1980-81 reduction in grain exports from drought conditions in Western Canada.

A set of simulations was prepared for Marvin Schaeffer and Associates, exploring the impact of the substitution of coal for crude petroleum, in connection with a study for the Canada West Foundation on the socio-economic impacts of the Western Canadian coal industry.

Simulations were carried out for Gulf Canada establishing the macro-economic background for National Energy Board submissions and for corporate planning.

Over twenty-five simulations were prepared for the special committee on Alternative Energy and Oil Substitution exploring the macro-economic impacts of various domestic and international pricing patterns, and domestic energy demand and supply scenarios. Two full reports, including extensive graphic material, were submitted to the committee.

The group also undertook simulations for the Royal Military College, the Hudson Institute and a committee chaired by Senator H. A. Olson.

Productivity

The issue of productivity, which was dealt with extensively in the annual review, is also the object of study by two of the Council's research groups.

The work of the group will culminate in a report on issues related to industrial policies, with an emphasis on the problems and challenges faced by governments in promoting technological advances, productivity and growth in the Canadian economy. This report is planned for publication in 1982.

The group will also produce separate studies on three specific areas of its investigation. One will examine the process of technological change in firms within certain industries; another will look at the transfer of technology between countries and at the competitiveness of Canadian firms and industries in international markets; finally, the group will analyse the structural factors affecting the competitive ability of Canadian industries. These studies are to be completed in 1981.

The research group on Growth and Productivity is examining the issue of productivity on a macroeconomic level. Its work aims at identifying major impediments to economic growth and productivity. The group is analyzing the performance of major groups of manufacturing and service industries in this perspective, taking into account such factors as tariff protection, corporate concentration and regional differences between industries.

The results of the group's work are scheduled for publication in late 1982.

The final report will include consideration of a number of issues, including the quality of Canada's plants, machinery and equipment, especially the requirements of new technology; the variability of costs and profits between industries; the factors that affect risk-taking in the economy and the consequences for productivity; the effects of location on variations in costs and profits; the seasonal, cyclical

and structural factors that relate to utilization of capacity; the tax structure and productivity; economies of scale in marketing and distribution, and productivity in the service industries.

Regional Studies

The Council has in recent years become increasingly involved in the study of problems common to Canada's provinces and has attempted to identify improvements to the national economy that might be achieved through changes in regional economies. The work carried out on the economy of Newfoundland was the first intensive study of a provincial economy ever undertaken by the Council. The experience of this study and the results of the work are expected to be of considerable value in future studies of a regional or provincial nature.

The analysis of problems common to Canada's provinces is a large component of the current research program. This work is divided into two principal areas, each of which is the object of study by a research group. The first involves an examination of issues arising from the renegotiation of the Fiscal Arrangements Act, which governs the principal fiscal arrangements between federal and provincial governments, including tax collection agreements and programs such as Equalization and Established Programs Financing Arrangements.

The rapid development and economic growth of the Western provinces since the mid-1970s has had important consequences for the national economy. The Council's Regional Development group is studying the phenomenon of Western growth, especially the effects of rising energy prices and increasing provincial revenues on the fiscal balance between the federal government and the provinces. The group will be examining traditional Western concerns over transportation, agriculture, trade policy and processing of raw materials. It will

also examine the effects of the resource boom on the West as well as on the rest of Canada in terms of income, productivity, employment and migration. All of the work will be initially planned in consultation with officials and others in the West.

The inter-governmental aspect of the Council's regional studies program is being conducted by the Regional Studies Fiscal Group.

The group is studying problems related to fiscal federalism, focusing specifically on issues arising from renegotiation of the Fiscal Arrangements Act, which expires in 1982.

The Act governs the programs of equalization payments to poorer provinces and funding by federal and provincial governments of programs such as medical insurance, hospital care and post-secondary education.

The work being done by the Council will be directly applicable to the renewal or replacement of the Act.

Among the principal topics included in the research program are the future of equalization payments; the future of the principal federal-provincial "conditional" grants for expenditure on health and post-secondary education; the implications of inter-governmental fiscal arrangements for the conduct of stabilization policy; the effects of natural resource pricing decisions on the fiscal positions of federal and provincial governments and inter-governmental transfers; the relationship between the transfer system, movement of factors of production and efficient allocation of resources in the economy; objectives of tax and fiscal harmonization between federal and provincial governments; the nature of the process by which inter-governmental fiscal arrangements are concluded; and a comparison of recent patterns of public finance in Canada and other federal states.

Financial Markets

The role of federal and provincial governments as financial intermediaries continues to grow and has significant effects on Canada's economy. The work being carried out by the Financial Markets Group analyzes the effectiveness of that role.

The project focuses primarily on credit and credit guarantees extended by federal and provincial governments to industry, agriculture, exports and housing. These sectors represent 80 per cent of the flow of funds from the public to the private sector. The group will publish an interim report on its findings later in 1981. The final report is scheduled for 1982.

The areas of research include the nature and scope of government involvement as a financial intermediary; the state of the market in which the government has intervened; the objectives of government intervention; the impact of that intervention on financial and resource allocation; the effects on income distribution and stabilization policies; the efficiency of government operations compared to the private sector and consideration of alternative means of achieving the same ends, such as direct subsidies, tax credits and modification of regulations.

Labour Markets

The research of the Labour Markets group seeks to identify the nature of labour market imbalances in the 1980s. The group's work involves the construction of two major economic models to provide estimates of both occupational demand and occupational supply. The group is also analyzing the effectiveness of the Canada Manpower Training Program, conducting empirical investigations of the process of job search and of labour market transition, and examining the behavior of unemployed workers and the characteristics of unemployment. A

major report on the findings of the group is planned for the latter part of 1982.

The study will include work on the extent to which unemployment, measured by the official unemployment rate, is attributable to structural factors; the rationale behind labour market activity; the size of present and future shortages of skilled labour; union attitudes to technological change; the relationships between the educational system, vocational training and labour market requirements; the extent and characteristics of apprenticeship; impediments to labour market mobility, and the role of wages in the adjustment process.

Special Studies

The Act of Parliament that created the Economic Council contains a provision whereby the Prime Minister of Canada may request that the Council undertake special research projects.

Newfoundland

The major study of Newfoundland's economy published in the last year was referred to the Council by the Prime Minister at the request of the government of Newfoundland. The purposes of the study were to identify ways of reducing the unemployment rate in Newfoundland; raising earned incomes in the province, especially through raising productivity and employment; reducing dependency on federal transfers and assisting the province's government to plan its medium-term development strategy.

The final report of the study, titled *Newfoundland: from dependency to self-reliance* was published this past year. A great number of studies and papers detailing themes raised in the report have also been published and have stirred public discussion not only of the Newfoundland situation, but also, of comparable problems faced by other provinces.

Regulation

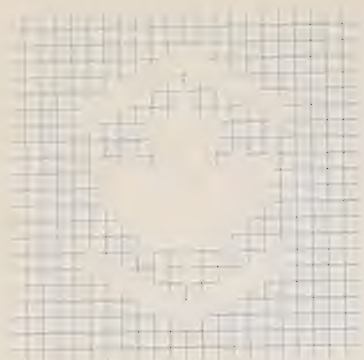
At a federal-provincial conference in February 1978 the Prime Minister and the Premiers resolved that the Economic Council be requested to undertake a major study of government regulation of the private sector.

A research program was adopted after extensive consultation with provincial officials, business and trade associations, the labour movement, consumer groups and individuals working in the private sector. An interim report focusing on the "process" of regulation, was published in December 1979.

The final report deals with the substance rather than with the process of regulation. The study includes an analysis of the effects of regulation in such fields as environmental protection; agriculture and fisheries; food processing and distribution; health and safety; air, rail and truck transportation; telecommunications; occupational licensing; and the cost to small and large businesses of compliance with regulations.

An extensive body of research work was produced in the course of the study. Much of this supporting material has been made public, or will soon be published under the names of the individual authors.

The publication of the final report, in 1981, will provide additional impetus to the continuing process for reforming regulations in Canada.



Conference and Seminar Program

The Economic Council of Canada has in the past year put in place an Institutional Relations program which has as its objectives the establishment and maintenance of regular contacts with business and labour groups, issue-oriented interest groups, and researchers and policy advisers in different levels of government.

Seminars

The organization of seminars at the Council is an important element of the Institutional Relations program. Policy researchers from federal government agencies and departments participate in these sessions which tend to feature well-known commentators on public policy issues. The speakers over the past, as well as the topics which they addressed, are included in the following list.

1980

April 25

General Staff Seminar on the Newfoundland Consensus Document

May 9

A Progress Report on the Federal Business Development Bank's Efforts at Record Linkage
Donald Allen
Federal Business Development Bank

May 16

Unemployment and Minimum Wages in the Welfare State
Sar A. Levitan
The George Washington University

July 11

An Examination of Short- and Medium-Term Problems and Policies with Particular Emphasis on Inflation, Growth and Productivity
Charles L. Schultze
Council of Economic Advisers, Washington

July 22

Strategies for Fostering Industrial Innovation
Jordan J. Baruch
Department of Commerce for Productivity, Technology and Innovation, Washington

September 12

The Economics of Investment Grants
Dan Usher
Queen's University

November 14

Energy and the Economy
Dale W. Jorgenson
Harvard University

December 13

Economic Council and Department of Finance Evaluations of Hibernia
J. Wilby
Economic Council

1981

January 7

The Global 2000 Report
T. Pickering
U.S. Assistant Secretary of State for Oceans, International, Environmental and Scientific Affairs, U.S. Government

January 14

An Evaluation of the National Energy Program
J. Helliwell
University of British Columbia

January 30

Differential Information and Financial Transactions
E. Neave
Queen's University

February 4

Economic Analysis of Productivity at Establishment Level
J. Copithorne
J. Wilby
Economic Council

February 13

Pollution Abatement Strategies and Productivity
E. Mills
Princeton University

February 19

The Case for Equalization Payments
F. Flatters
Queen's University

February 26

International Migration and Differential Fiscal Structure
D. Gauthier
S. Winer
Economic Council

Communications Division

Technical and Administrative Services

Senior Management

The Communications Division is responsible for the publication in both official languages of Council documents as well as media relations, public information and the publication of a quarterly magazine.

Over the past year, the Council published a number of authored studies as well as two major reports in both official languages. Editing and translation of these publications and various other documents and background papers were carried out by the Communications Division. The Division's graphic design section and text-editing unit were responsible for the production of these publications.

In the past year, a new Council magazine, *Au Courant*, was launched to replace the periodical *Bulletin*. Designed to reach a wide general audience and to acquaint them with the research and activities under way at the Council, *Au Courant* is now being distributed free of charge in both official languages to over 45,000 readers, including business people, teachers and students, union members, policy-makers at all three levels of government and the public at large. The circulation of the magazine has been increased and changes in design and format have been implemented as part of ongoing efforts to ensure that the Council's work reaches as wide an audience as possible.

The Council's program of media relations was reorganized and a full-time media relations officer was appointed. This revitalized program seeks to encourage media across the country to utilize the Council as a source of authoritative information on economic issues and systematic contacts with the media have been established. The format of the *Annual Report* was revised so that it will serve as a document of basic information on the Council's recent activities.

The Council has its own technical and administrative services set up to meet the specific needs of the research staff. Given the nature of the Council's work, the statistical and data processing service is probably the most important and, along with the library, it maintains the closest links with researchers.

The Council's reorganization of its administrative services continued over the past year, with the gradual introduction of more systematic methods of administrative, financial and human resources management. These new operating procedures are based on those generally in use in the public service and the systems being put in place are designed to achieve a more rational and efficient management of resources.

Chairman

David W. Slater

Secretariat

P. Robert, Secretary General
W. E. Haviland, Council Secretary

Group Directors

Growth and Productivity

P. M. Cornell

Performance and Outlook¹

R. S. Preston

Seventeenth Annual Review

D. Paproski

Regional Studies (Fiscal)

D. O. Sewell

Regional Studies (Development)

N. M. Swan

Labour Markets

K. Newton

Financial Markets

A. Ryba

Technological Change,

Growth and Productivity

N. M. Swan²

Newfoundland Reference

L. W. Copithorne

Regulation Reference

R. A. Jenness, Executive Director

Communications Division

J. Fortin

Statistical and Computer Services

Y. Goulet³

¹Formerly called CANDIDE GROUP

²Appointed to replace D. P. De Melto in January 1981

³Appointed to replace R. A. Stewart in February 1981



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Economic Council of Canada
and

The Right Honourable Pierre Elliott Trudeau, P.C., Q.C., M.P.
Prime Minister
Ottawa, Ontario

I have examined the statement of expenditure of the Economic Council of Canada for the year ended March 31, 1981. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditures of the Council for the year ended March 31, 1981, in accordance with the accounting policies set out in Note 2, applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "Réal Plamondon".

Senior Deputy Auditor General
for the Auditor General of Canada

Ottawa, Ontario
May 25, 1981

Economic Council of Canada
(Established by the Economic Council of Canada Act)

Statement of Expenditure
for the year ended March 31, 1981

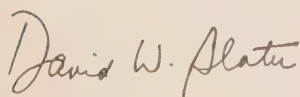
| | 1981 | 1980 |
|---|---------------------|--------------------|
| Administration | | |
| Salaries and employee benefits | \$ 4,902,546 | \$ 5,159,934 |
| Professional and special services | 1,680,310 | 2,938,973 |
| Accommodation | 400,000 | 407,353 |
| Publicity, publication of report and studies | 363,386 | 196,312 |
| Office stationery and supplies | 157,499 | 156,835 |
| Communications | 104,557 | 144,380 |
| Travel and removal | 188,690 | 141,009 |
| Rental of equipment | 73,917 | 92,024 |
| Office furniture and equipment | 57,690 | 64,165 |
| Repair of furniture and equipment | 17,809 | 23,452 |
| Renovations | 46,983 | — |
| Miscellaneous | 922 | 2,257 |
| Total expenditure | \$ 7,994,309 | \$9,326,694 |

Total expenditure provided for by:

| | | |
|--|---------------------|---------------------|
| Appropriations | | |
| Privy Council Vote 20 | \$ 6,916,309 | \$ 8,148,241 |
| Statutory - Contributions to employee benefit plans | 602,000 | 693,000 |
| Government departments which provided services without charge | 476,000 | 485,453 |
| | \$ 7,994,309 | \$ 9,326,694 |

The accompanying notes are an integral part of the financial statement.

Approved:



Chairman



Notes to the Statement of Expenditure March 31, 1981

Objective

The Economic Council of Canada was established on August 2, 1963 by Act of Parliament under the provisions of the Economic Council of Canada Act, and reports to the Prime Minister through the Privy Council. The objective of the Economic Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

Accounting policies

The accounts of the Council are maintained on a cash basis modified to include payments made in April relating to work performed, goods received or services rendered prior to April 1. The accounts are then adjusted, to reflect those payables at year end (PAYE) still unpaid by April 30.

Purchases of furniture and equipment are recorded as an administration expenditure in the year of acquisition.

Reported expenditures also include costs for services provided without charge by government departments.

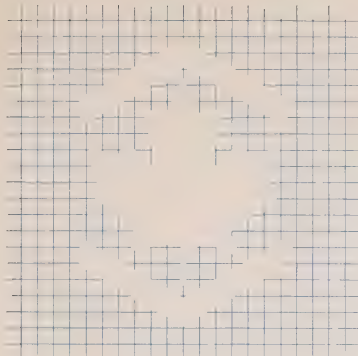
The accounting policies are consistent with those used by departments of the Government of Canada.

Financing

The funds required to finance the transactions of the Council are provided by Privy Council Vote 20 and recorded as expenditure in the Accounts of Canada. During the year, \$7,428,000 (\$8,505,000 in 1980) was provided by this Vote and \$511,691 (\$356,759 in 1980) lapsed in accordance with Section 30 of the Financial Administration Act.

Contingent liability

At March 31, 1981, the Council was a defendant in a lawsuit taken by a former term employee alleging breach of certain conditions of the employment contract with the Council. Total damages claimed are \$67,000 plus court costs estimated at \$5,000. The Council is contesting this action.



Publications of the Economic Council of Canada, 1980-81

Annual Report, 1979-80, *David W. Slater* (EC1-1980 — available free from the Economic Council)

Council Reports

Seventeenth Annual Review: A Climate of Uncertainty (EC21-1/1980E, \$8.75 in Canada, \$10.50 other countries)

Newfoundland: From Dependency to Self-Reliance (EC22-85/1980E, \$10.95 in Canada, \$13.15 other countries)

Newfoundland: From Dependency to Self-Reliance — Summary and Recommendations (available free from the Economic Council)

Research Studies

An analysis of Turnover in Ontario Industrial Establishments
Norman Leckie, Gordon Betcherman, and Keith Newton, (EC22-77/1980E, \$2.50 in Canada, \$3.00 other countries)

Wage Inflation in Canada, 1955-75
D. A. Wilton, (EC22-79/1980E, \$4.50 in Canada, \$5.40 other countries)

Canada's Trade Relations with Developing Countries: The Evolution of Export and Import Structures and Barriers to Trade in Canada
V. Corbo and Oli Havrylyshyn, (EC22-80/1980E, \$12.00 in Canada, \$14.40 other countries)

Minimum Wages: The New Issues in Theory, Evidence, Policy and Politics
E. G. West and M. McKee, (EC22-81/1980E, \$12.25 in Canada, \$14.70 in other countries)

The Future Financing of the Canada and Quebec Pension Plans: Some Alternative Possibilities
F. T. Denton, A. L. Robb, and B. G. Spencer (EC22-76/1980, \$3.50 in Canada, \$4.20 other countries)

The Future Population and Labour Force of Canada: Projections to the Year 2051

F. T. Denton, C. H. Feaver, and B. G. Spencer, (EC22-75/1980, \$3.50 in Canada, \$4.20 other countries)

Skills and Shortages — A Summary Guide to the Findings of the Human Resources Survey

Gordon Betcherman, (EC22-1980E, \$2.00 in Canada, \$2.40 other countries)

Canadian Private Direct Investment and Technology Marketing in Developing Countries

Steven W. Langdon, (EC22-82/1980E, \$8.95 in Canada, \$10.75 other countries)

Towards a Better Understanding of the Consumer Price Index

M. C. McCracken, and E. Ruddick, (EC22-88/1980E, \$3.50 in Canada, \$4.20 other countries)

A Promise of Abundance: Extended Fisheries Jurisdiction and the Newfoundland Economy
Gordon R. Munro, (EC22-86/1980E, \$9.95 in Canada, \$11.95 other countries)

A New Approach to Frictional Unemployment — An Application to Newfoundland and Canada

Harry H. Postner, (EC22-84/1980E, \$6.95 in Canada, \$8.35 other countries)

Redistributive Effects of Canada's Public Pension Programs

Samuel A. Rea, Jr., (EC22-89/1980E, \$4.25 in Canada, \$5.10 other countries)

Language and Earnings in Montreal
Jac-André Boulet, (EC22-90/1980E, \$9.95 in Canada, \$11.95 other countries)

Empirical Testing on Newfoundland Data of a Theory of Regional Disparities

Neil M. Swan and Paul J. E. Kovacs (EC22-92/1980E, \$4.95 in Canada, \$5.95 other countries)

**The Trees Behind the Shore:
The Forests and Forest Industries in
Newfoundland and Labrador**
John A. Gray, (EC22-91/1980E, \$9.95 in
Canada, \$11.95 other countries)

Periodicals

Au Courant, Vol. 1, No. 1 (available
free from the Economic Council)

Au Courant, Vol. 1, No. 2 (available
free from the Economic Council)

Au Courant, Vol. 1, No. 3 (available
free from the Economic Council)

Other Reports

**Reflections on Canadian Incomes —
Selected papers presented at the
Conference on Canadian Incomes,
May 10-12, 1979**
(EC22-78/1980E, \$17.50 in Canada,
\$21.00 other countries)

**Final Report — Centre for the Study
of Inflation and Productivity**
(EC22-83/1980 — available free from
the Economic Council)

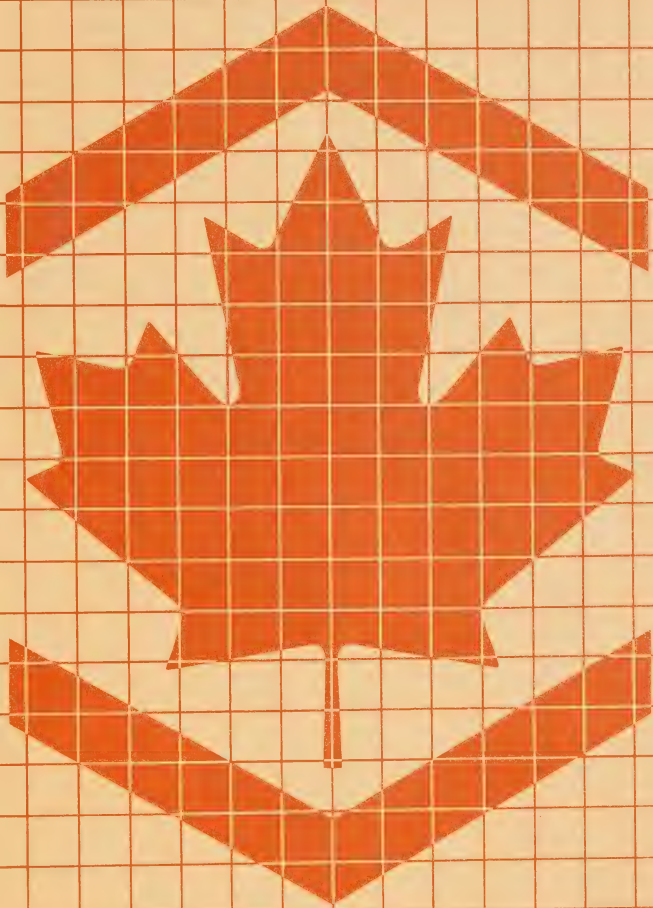
How to order

Both the consensus reports and
research studies listed above are
available across Canada from bookstores
where government publications are
sold. (A list is available from the Council
on request.) These publications can
also be ordered by mail from the
Canadian Government Publishing
Centre, Supply and Services Canada,
Hull, P.Q., K1A 0S9. (Please be sure
to include a cheque or money order
made payable to the Receiver General
for Canada.)

For further information

If you would like further information
about the work or the publications of
the Economic Council, please write to
Communications Division, Economic
Council of Canada, P.O. Box 527,
Ottawa, Ontario K1P 5V6

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Economic Council of Canada Conseil économique
du Canada

Chairman's Office Cabinet du président

June 30, 1982

The Right Honourable
Pierre Elliott Trudeau, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir

I have the honour to transmit the annual statement relating to the activities of the Economic Council of Canada for the fiscal year ending March 31, 1982, as required by the Economic Council of Canada Act.

Yours sincerely

David W. Slater
Chairman



A Message from the Chairman



In its Eighteenth Annual Review published in December 1981, the Economic Council foresaw the possibility of the Canadian economy beginning to shake loose from the shackles that had bound it for half a dozen years or more and moving towards the realization of a significantly brighter future in the mid-1980s.

Both in this country and abroad, however, the current economic environment has seriously deteriorated. North America in particular has been experiencing a sharp and persistent recession, marked by a severe drop in economic activity and corporate profits and a substantial increase in unemployment and government deficits.

While the rate of inflation has – at least temporarily – declined dramatically in the United States, nominal interest rates remain high; real interest rates, as a consequence, are at record postwar levels. It is deeply disturbing that in Canada, by contrast, the rate of increase in costs and prices has eased only moderately in the face of a recession that is at least as severe as that south of the border, with the result that prevailing real and nominal interest rates remain more closely related to the rate of inflation than in the United States.

The easing of world oil prices over a period of several months in late 1981 and early 1982 provided a welcome relief from global inflationary pressures. But that development – combined with the recession, continuing high interest rates, and the expected slower increases in real petroleum prices in future than were earlier anticipated – has seriously disrupted progress towards the development of a number of major new energy projects both in Canada and abroad.

Notwithstanding all of these adverse developments, I remain convinced that Canada has the *potential* to achieve a significantly higher rate of growth of

output and employment over the medium term than it has experienced over the past several years. I must acknowledge, however, that that conviction is tempered by the stresses and strains that currently confront us, which may very well have the effect of delaying and impeding the realization of this potential in full measure.

But it cannot be emphasized too strongly that even this scaled-down goal to which we might reasonably aspire will not be achieved automatically. A fundamental prerequisite is the development of a significant degree of political consensus among governments and the major participants in the private sector with respect to the means that must be adopted in order to realize our economic objectives. In particular, a consensus is required on the policies and programs that should be instituted by governments alone and in co-ordination with various sectors of the economy to foster the achievement of these goals.

Let me outline briefly what I have in mind.

Despite the recent setbacks in energy-related developments as a result of current adverse circumstances, many of the resource-based projects now on the drawing boards remain essential to our future, and their eventual development will provide a strong stimulus to growth right across the country. But translating plans into reality depends in many cases on agreement being reached between federal and provincial governments on the management of those resources. This applies with particular force in the case of offshore mineral and fishery resources, both of which offer bright prospects.

A major expansion is required in the railway transportation and distribution system in Western Canada. This country, for example, has the capacity to increase its grain output by 40 to 60 per cent over the next several years. But an increase of

this magnitude will not be undertaken by Prairie farmers unless adequate facilities are available for the efficient and expeditious movement of their grain to port terminals for subsequent loading on waiting ships.

Similarly, the potential exists to increase significantly the supply base of our forest industries. But that development will only come about if agreement can be reached between governments and the private sector on how best to improve the management of these resources.

The growing Canadian ownership of domestic assets previously held by foreigners – partly in response to the National Energy Program and partly in response to other factors – has resulted in a heavy outflow of capital at a time when Canada is running a large current account deficit. Studies undertaken for the Council indicate that it makes good economic sense to moderate the impact of these capital outflows by borrowing abroad to finance a significant proportion of these takeovers. Such a course, however, makes it all the more desirable for the federal and provincial governments to co-ordinate their own foreign borrowing activities in order to achieve better overall management of the capital account of Canada's balance of international payments.

In its policy framework paper, *Economic Development for Canada in the 1980s*, the federal government stressed – very properly, in my view – the potential for Canada's economic growth and development. This potential was based on opportunities provided by large-scale, resource-related projects; by the manufacturing and service sectors, which are capable of supplying the wide range of components and other elements required for those projects; and by the high-technology industries that today are growing apace.

At the same time, however, I think it is

very important that the prospects for growth of a broad range of manufacturing and processing activities and service industries unrelated to resource developments should not be underrated; nor should the importance of investment in these other sectors be played down. The conventional wisdom prevailing in Canada is that most segments of our manufacturing and service sectors are highly uncompetitive at home and abroad. In no small measure, this impression has been created by statistics purporting to show that Canada has experienced a large and growing deficit balance of trade in so-called end products – statistics that are distorted and misleading, in my view, because they fail to capture the full measure of manufacturing and semi-manufacturing activities in this country.

While there are, of course, some manufacturing and service industries that are already quite uncompetitive and likely to become increasingly so, there are also a good many success stories that largely go untold. Many of these successes are the result of the growing world-scale marketing of specialized products developed by Canadian subsidiaries of foreign multinational enterprises, as well as by Canadian-controlled companies. In order to further encourage the growth of this sector, what is required as a starting point is the development of a great deal more knowledge than we now possess about its present and prospective strengths and weaknesses.

Over the course of the year 1981-82, the Economic Council worked intensively on the development of a number of consensus documents dealing with a wide variety of factors affecting our potential for future economic growth, in an effort to contribute to the vital process of decision making.

An in-depth study of the broad and massive fiscal relationships between the

federal and provincial governments was contained in the report published by the Council during the year on *Financing Confederation – Today and Tomorrow*. An equally broad study of the important role played by government as a financial intermediary in providing loans, grants, and guarantees to agriculture, housing, exports, and business is due to be published in the latter half of 1982. The Council's report on a wide range of concerns with respect to the efficient functioning of the Canadian labour market is also scheduled to be published within the same time frame.

Work is in progress on a number of topics. Studies are under way with respect to: technological change, productivity, and economic growth as they involve not only firms within particular sectors of the economy and particular industries but also the economy as a whole; the past patterns and future prospects for economic development in Western Canada; and an examination of policy issues that are important to the development of Canadian energy resources.

As in recent years, the Nineteenth Annual Review of the Council, to be published in the fall of 1982, will focus on Canada's medium-term prospects against the background of current economic developments at home and abroad, and the present setting of policy. Within that framework, the Review will consider factors critical to the future of the economy, such as the outlook for inflation and real interest rates and their implications with respect to capital investment, housing, and the rate of saving in Canada. In the context of inflation, the study will also seek to assess the feasibility of a variety of income policies that have been advanced in recent years as a means of moderating the spiral of prices, salaries, and wages.

It is the hope of the Council that all of these reports will contribute to a better understanding of many of the facets that must be taken into account in considering the development of policies and programs aimed at strengthening the ability of the Canadian economy to achieve its potential. In the end, however, that depends in large measure on the will and wisdom of those charged with the responsibility of making the decisions today that will so vitally shape our future for years to come.

The Economic Council



The Economic Council of Canada is an independent research and advisory body, established by Parliament in 1963, with broad terms of reference to study and report on a wide range of matters relating to Canada's economic development.

The mandate set out in the Economic Council of Canada Act was quite specific; it enjoined the Council not only to work for economic prosperity but also to be concerned that rising living standards would benefit all Canadians.

The Act stipulates that the Council is to advise the government "on how Canada can achieve the highest possible levels of employment and efficient production so that the country can enjoy a high and consistent rate of economic growth and so that all Canadians will share in a rising standard of living."

The Council has three principal functions, namely:

- to conduct economic analysis and undertake studies with a view to providing a greater understanding of the workings of the Canadian economy and its prospects for the future;
- to make recommendations to government and the private sector on economic policy measures to improve Canada's economic performance;
- to educate and inform the Canadian public on economic problems and to stimulate, through the media and other forums, public discussion of policy solutions and economic strategies.

A number of organizations and institutions have emerged in Canada since the Council's creation that have also set themselves the task of analysing and proposing economic policy. The Economic Council remains, however, the only national body with a special mandate through Parliament. It has also, over the years, staked out a particular claim to expertise in assessing the medium- and long-term prospects for

economic performance – a task that is as much an art as a science.

The Council is made up of an appointed board of up to 28 members, supported by a full-time staff of economists and other specialists, who work under the direction of a Chairman and two full-time directors. The appointed members of the Council are representative of various sectors of Canadian society. They assist in setting the organization's research priorities and play a role in the preparation of major studies, such as the Annual Review.

The Council's annual assessment of the medium- and long-term prospects for the Canadian economy is published each fall. In its annual reviews, the Council seeks to provide an analysis of the performance of the Canadian economy, to look at the effectiveness of current economic policies, and to set out policy options that the Council believes will improve the country's economic well-being. The recommendations in the annual reviews arise from the deliberations of the Council's appointed members; thus they represent the official view of the Council as a whole. Individual members are free to publish dissenting opinions or comments.

In addition to its regular program of research, the Council at times undertakes special projects referred to it by the Prime Minister of Canada. In recent years, these have included a major study of government regulation in Canada and a detailed analysis of the economy of Newfoundland.

Since its creation, the Council has provided Canadians with an ongoing analysis of the economy, having examined economic policies and the effect of possible alternatives on the country's economic prospects. The projections, policy analyses, and recommendations formulated by the Council over the past decade have

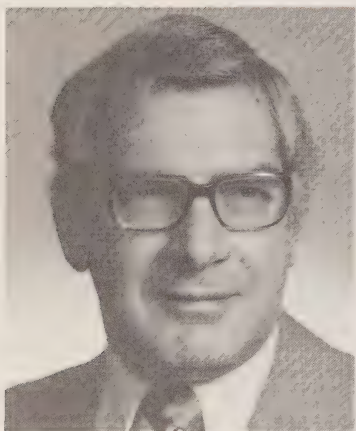
played a significant role in discussions of public policy.

Economic activity involves virtually every aspect of daily life; the Council's work has included studies of such diverse subjects as the distribution of wealth among Canada's regions, the cost of taking a taxi in Montreal, land use planning in Vancouver, and the effect of the spruce budworm on Newfoundland's economy.

The Council's current research into economic issues reflects the concern shared by most Canadians over high inflation, high interest rates, unemployment, and the need for Canada to adopt policies that will exploit its potential for economic growth and energy self-sufficiency.



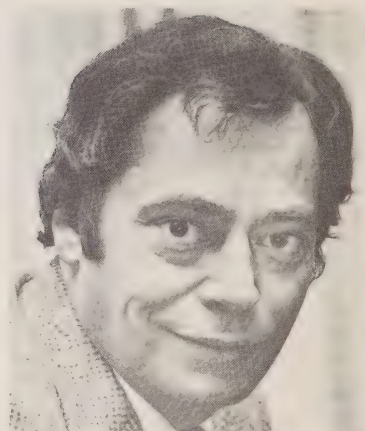
Members of the Economic Council of Canada



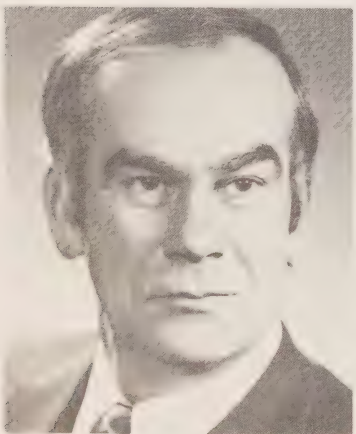
David W. Slater
Chairman



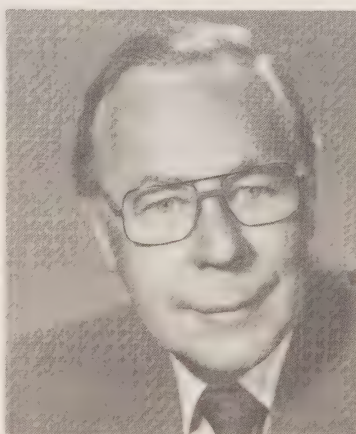
Peter M. Cornell
Director



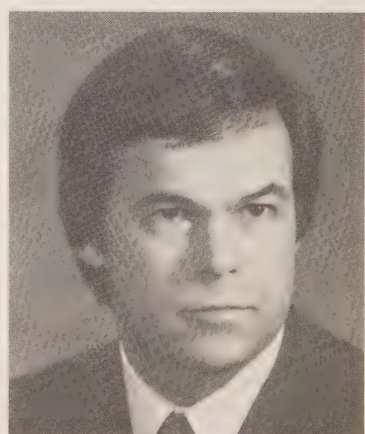
Patrick Robert
Director



Philip C. Barter
Partner
Price Waterhouse and Co.
Vancouver, British Columbia



David Blair
Vice-President, Atlantic Region
Canadian National
Moncton, N.B.



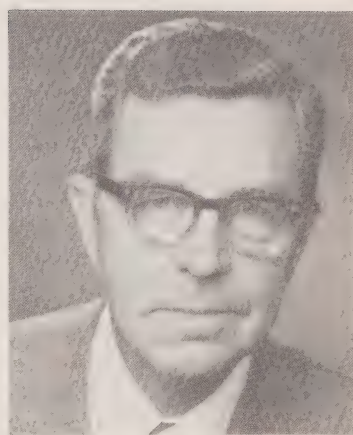
Pierre Brien
Vice-President
Canada Lands Company (Mirabel) Ltd.
Ste-Scholastique, Quebec



Robert B. Bryce
Retired Public Servant
Ottawa, Ontario



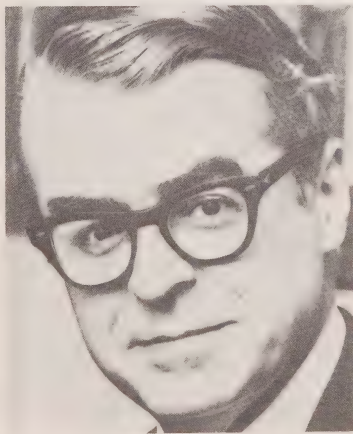
Mildred S. Dobrin
Vice-President and General Manager
Miracle Mart
Ville St. Laurent, Quebec



G. Campbell Eaton
Managing Director
Newfoundland Tractor and
Equipment Co. Ltd.
St. John's, Newfoundland



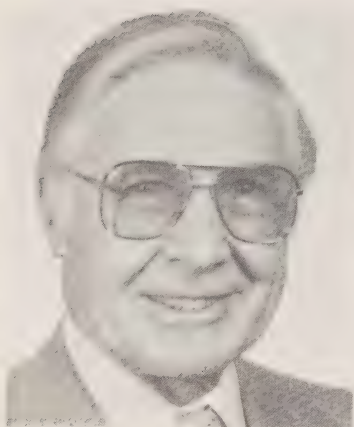
Eileen Forbom
General Manager
United Broadcasting Limited
Sudbury, Ontario



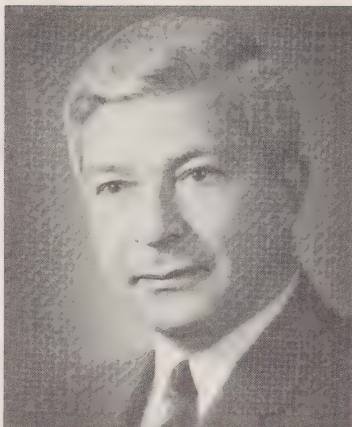
Donald F. Forster
President
University of Guelph
Guelph, Ontario



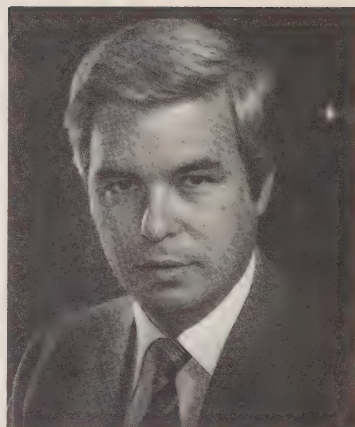
Shirley B. Goldenberg
Professor
Faculty of Management
McGill University
Montreal, Quebec



T. Earle Hickey
Former Minister of Finance of P.E.I.
Charlottetown, P.E.I.



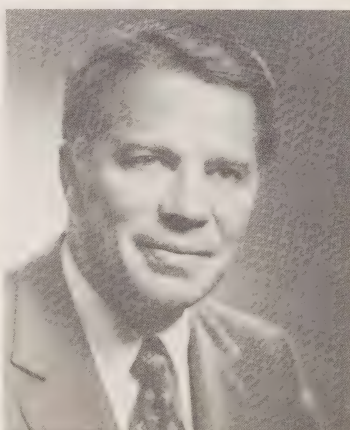
Kalmén Kaplansky
Senior Fellow
Human Rights Centre
University of Ottawa
Ottawa, Ontario



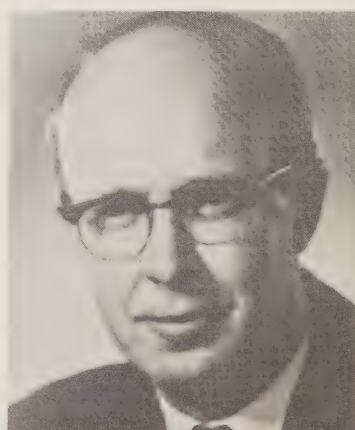
Pierre Lortie
President
Montreal Stock Exchange
Montreal, Quebec



Donald H. McDougall
Partner
Stewart, MacKeen & Covert
Halifax, Nova Scotia



Paul L. Paré
Chairman and
Chief Executive Officer
Imasco Limited
Montreal, Quebec



Alastair H. Ross
President
Allaro Resources Ltd.
Calgary, Alberta

Retirements, Appointments, and Resignation



Patrick Shimbashi
Farmer
Taber, Alberta



Ralph G. M. Sultan
Former Executive Vice-President
Hudson Bay Mining and
Smelting Co. Limited
Toronto, Ontario



Roy Vogt
Professor
St. Paul's College
University of Manitoba
Winnipeg, Manitoba

During the year ending March 31, 1982, the terms of the following members expired:

J. A. McCambly (April 7, 1981)
H.W. Arthurs (June 22, 1981)
W. A. Dimma (June 22, 1981)
N. Forget (June 22, 1981)
P. Laurin (June 22, 1981)
H. I. Macdonald (June 22, 1981)
P. H. Pearce (June 27, 1981)
N. A. Bromberger (January 1, 1982)
J. H. Stevens (January 1, 1982)

The following new members were appointed:

P. Brien (December 10, 1981)
D. F. Forster (December 10, 1981)
T. E. Hickey (December 10, 1981)

The following members were reappointed:

R. B. Bryce (June 22, 1981)
M. S. Dobrin (June 22, 1981)
K. Kaplansky (June 22, 1981)
D. W. Blair (July 23, 1981)
R. G. M. Sultan (July 23, 1981)

The following staff members were appointed full-time members and Directors:

P. M. Cornell (August 24, 1981)
P. C. J. Robert (August 24, 1981)

The following member resigned:

D. W. Blair (March 15, 1982)

Research Program



The Council's research program is conducted by several project groups comprised of professional staff with advanced training in economics and varied experience in universities, government, and industry. The full-time staff is often augmented by consultants with specialized knowledge in specific research areas.

Performance and Outlook

In 1981, the task of preparing the Council's annual review of the medium- and long-term prospects of the Canadian economy was assigned to the Performance and Outlook group. The research program carried out by that group for the Eighteenth Annual Review centred on the development of two possible strategies aimed at determining what changes in the policy mix would be necessary to improve Canada's economic performance over the medium and long term. The first strategy concentrated on controlling inflation and reducing the federal government's deficit; the second strategy focused on fighting inflation but at the same time stimulating economic growth, rather than making the reduction of the federal deficit a priority.

Summarizing the results of the exercise in its Eighteenth Annual Review, *Room for Manoeuvre*, the Council concluded that effective policies to improve Canada's economic performance would have to operate on both the demand and the supply side of the economy. The Council made six specific recommendations, including reduction of corporate taxes, continued restraint on government spending, reduction of indirect taxes on nonenergy goods with monitoring to ensure that benefits are passed on to consumers, moderate increases in personal income taxes in 1983 and 1984, and a similar approach to changing taxes on the part of provincial governments. As well, the

Council said that explicit programs should be developed to help low-income people to cope with rapid oil price increases.

Aside from its work on the Annual Review and in support of research within the Council, the Performance and Outlook group develops and updates the Council's computerized econometric model, CANDIDE 2.0. Use of the model allows the group to measure current economic performance and to simulate performance under various scenarios and policy options.

The group also actively assists outside users from the public and private sectors in applying the CANDIDE model to their individual problems.

Nineteenth Annual Review

The Nineteenth Annual Review, to be published in the autumn of 1982, will continue to focus on the analysis of economic performance and the prospects for future growth. A special group has been formed to prepare the background analysis of medium-term economic issues and policy options. A major input to the Review will also come from the medium-term projections and policy simulations developed by the CANDIDE group.

Technological Change, Productivity, and Growth

Productivity at the microeconomic level is being studied by the project group on Technological Change, Productivity, and Growth. The work of this group will culminate in a Council report on issues related to industrial policies, with emphasis on the problems and challenges faced by governments in promoting technological advance, productivity, and growth in the Canadian economy. This report is planned for publication in late 1982.

The group will also produce separate

studies on several specific areas of its investigation, including the evaluation of various government programs of assistance to research and development; the appropriate ways to make international comparisons of Canada's R&D expenditures; the effect on sales and productivity in Canadian industries of changing levels of trade barriers; and the diffusion of new technology in the service sector in Canada.

Labour Markets

The research of the Labour Markets group seeks to identify the nature of labour market imbalances in the 1980s. The group's work involves projection exercises to provide estimates of both occupational demand and occupational supply. The group has also analysed the effectiveness of the Canada Manpower Training Program and has conducted empirical investigations of the process of job search and of labour market dynamics. A Council report on the findings of the group is expected to be published in June 1982.

The major issues examined in the report include the extent to which unemployment is of the short-spell, turnover variety or, conversely, is a more deep-seated, long-lasting phenomenon; the identification of present and future shortages of skilled labour; the relationships between vocational training and labour market requirements; the role of information in the adjustment process; and the potential role of job-creation policies.

Growth and Productivity

The research of the Growth and Productivity group is focused on policies to increase productivity as a key means of improving Canadian economic performance. The research will attempt to utilize and integrate both macro and micro analysis, neither of which is

sufficient on its own to gain an understanding of recent productivity trends, and to evaluate a variety of policies aimed at stimulating, and removing impediments to, economic growth and productivity. The analysis will include an examination of all inputs – not just technical change – as they contribute to the production process. The results of this group's work are scheduled for publication in 1983.

Productivity growth results from decisions taken by firms as they attempt to minimize their costs of production, and many of these decisions are affected by government policies. For this reason, much of the analysis will be based on models of decision making at the level of the individual firm.

The final report will include the consideration of a number of policy-sensitive issues, such as the effect of minimum wage legislation on on-the-job training; pollution controls and their effect on productivity; tax structure and its interaction with inflation and the production costs of firms; and the impact of industrial concentration and tariffs, particularly as these aspects affect the competitiveness of Canadian industry, both internationally and domestically, and the ability of firms to take advantage of economies of scale. Other issues will include management practices and risk taking, and their implications for productivity growth; the measurement of productivity in selected service industries such as health, education, finance, and transportation; and changes in the quality of labour over time.

Regional Studies (Fiscal)

The Regional Studies fiscal group was established to study problems related to fiscal federalism, focusing on issues arising from the renegotiation of the Fiscal Arrangements Act. The Act governs the principal fiscal arrangements between federal and

provincial governments, including tax collection agreements and programs such as Equalization payments to poorer provinces and federal funding of medical insurance, hospital care, and postsecondary education programs through Established Programs Financing arrangements.

The work of the group culminated in the publication of a major Council report, entitled *Financing Confederation*, in February 1982. The principal topics examined in the report were the future of equalization payments; the future of Established Programs Financing and the related issue of federal-provincial grants for expenditures on health and postsecondary education; the implications of intergovernmental fiscal arrangements for the conduct of stabilization policy; the effects of natural resource pricing decisions on the fiscal positions of federal and provincial governments and intergovernmental transfers; the relationship between the transfer system, the movement of factors of production and the efficient allocation of resources in the economy; the objectives of tax and fiscal harmonization between federal and provincial governments; and the nature of the process by which intergovernmental fiscal arrangements are concluded.

Regional Studies (Development)

The mandate given the Council by Parliament specifically enjoins it to include regional development among its concerns. The study of the Newfoundland economy, published in 1980, was the latest in an extensive body of work undertaken by the Council in order to increase understanding of the economies of Canada's regions.

The current plans for a new western study call for research in eleven areas – transportation; the effect on incomes of changing energy prices; forestry; agriculture; mining; the marketing of

western exports; manufacturing; migration to the West; service sector developments; the impact of western energy developments on the rest of the Canadian economy; and the meaning of balanced regional development as far as the West is concerned.

In order to facilitate consultations and to maintain a permanent presence in the West throughout the course of the research project, the Council has opened a western office at the University of Alberta.

Financial Markets

Government credit and credit guarantee programs have grown at a rapid pace over the past two decades and have had a significant effect on Canada's economy. The work of the Financial Markets Group is to analyse the effectiveness of these programs.

The project focuses primarily on the credit guarantees extended by federal and provincial governments to business, agriculture, export trade, and housing. These four sectors of economic activity have been the recipients of over 80 per cent of government loans outstanding or guarantees in force to the private sector.

The areas of research include the nature and scope of government intervention and the objectives currently being pursued; the environment in which such intervention has taken place, including the state of the financial markets; the impact that this form of government intervention has had on financial and real resource allocation and on stabilization policies; and the efficiency with which financial assistance is delivered. The project is attempting to determine how successfully government objectives are achieved through the use of financial instruments, and it is considering alternative means to achieve the same ends – such as direct capital grants, tax incentives, and modifications to existing regulations.

The work of the group will culminate in the publication of a major Council report in late 1982.

Explorations

The Explorations group was established to undertake a preliminary investigation of various economic issues to determine their nature, scope, and pertinence, and to carry out small projects. By increasing the Council's sensitivity to issues and problems that need to be addressed, the work of the group helps to determine the Council's future research program.

Among the topics currently under study by the group are the problems faced by women in the labour market and the implications for improving their conditions; the changing nature of government intervention in the development of Canadian industry, including the role being played by Crown corporations; the administrative and economic effects of various inflation control programs, especially those using tax incentives and disincentives; and analyses of the internal industrial and manpower adjustment processes and programs inherent in Canada's trade response to the opportunities and challenges created by the growth of nearly industrialized and developing countries.

Energy Issues

Energy developments have become so important to the functioning of the Canadian economy that the Economic Council feels a need to devote more of its attention to these matters. While several of its research groups have been looking at energy industry policies and issues in the normal course of work focused primarily on other problems, the Economic Council decided in December 1981 to undertake a research program focusing on energy issues alone. This research will result in a Council report and some supporting research studies to

be released around mid-1984.

The central concern is to find some common ground in Canada's energy policy debates and to develop economic strategies that will be helpful to governments and energy industry participants. Such concern leads to many questions ranging from the role of governments in the energy industry to the pricing of alternative energy commodities. Approaches to economic development, taxation and royalty issues, methods of sharing energy revenues, and the financial consequences for regions and governments will also be considered. Canadian ownership policies, interprovincial trade in energy, export and import policies, and changes in organizational structures will be studied as well.

Research projects will focus on various topics. These will include a study of international energy markets as a backdrop to Canadian energy policy making, a study of federal and provincial energy policies, studies on the domestic supply of crude oil, natural gas, synthetic and frontier oil, and electricity from various sources, as well as a study of energy demands. The Council will not attempt, however, to produce a comprehensive energy forecast, since that work is done by the National Energy Board. Instead, the Council will attempt to learn more about the responsiveness to different taxation and regulation strategies of energy supply and demand in order to see how these might be better adapted to the goals that energy policy decision makers are pursuing.

Special Studies

The Economic Council of Canada Act contains a provision whereby the Prime Minister of Canada may request that the Council undertake special research projects.

Regulation

At a federal-provincial conference in February 1978 the Prime Minister and the Premiers resolved that the Economic Council be requested to undertake a major study of government regulation of the private sector.

A research program was adopted after extensive consultation with provincial officials, business and trade associations, the labour movement, consumer groups, and individuals working in the private sector. An interim report focusing on the "process" of regulation was published in December 1979.

The final report, which was published in June 1981, deals with the substance, rather than the process, of regulation. It includes an analysis of the effects of regulation in such fields as environmental protection; agriculture and fisheries; food processing and distribution; health and safety; air, rail and truck transportation, telecommunications; occupational licensing; and the cost to small and large businesses of compliance with regulations.

Communications Division



The Communications Division is responsible for developing and implementing the Council's communications strategy in publishing and disseminating Council documents in both languages, carrying on a media relations program, providing public information, publishing a quarterly magazine, and planning and organizing Council seminars and public conferences.

It is through the publication of its research and recommendations that the Council seeks to add to public understanding of various economic issues and to stimulate public discussion of possible strategies and solutions. Over the past year, the Council has released a number of authored studies as well as three major reports. The tasks of editing, translation, production, and promotion of these publications were carried out by the Communications Division.

Information on current projects and published documents is provided in the Council's quarterly magazine *Au Courant*. Designed to reach a wide audience, *Au Courant* is now being distributed free of charge, in both official languages, to over 45,000 readers, including business people, teachers and students, union members, policy makers at three levels of government, and the public at large.

The Council's program of media relations seeks to encourage the media across the country to utilize the Council as a source of authoritative information on economic issues. The organization of press conferences, briefings, and interviews is the principal means used to maintain systematic contacts with representatives of the newsprint and electronic media.

Conferences

The organization of public conferences and workshops forms an important element of the Council's communications program. The conferences are intended to stimulate discussion of the Council's work and recommendations and to give representatives of various industries, labour organizations, government, and universities an opportunity to respond to the issues raised in Council reports and studies.

National Conferences on Regulatory Reform

Following the release of the Council's report on government regulation of the economy, *Reforming Regulation*, conferences were held last summer in Toronto, Montreal, and Vancouver. Jointly sponsored by the Economic Council and The Institute for Research on Public Policy, the conferences were intended to encourage public debate of issues raised by the Council's report and to help build public support for the progress of reforming regulation.

Special workshops, with guest speakers, were scheduled to discuss the main areas covered by the report, including direct economic regulation in transportation, telecommunications, and licensed professions; the regulation of common property resources such as fisheries, air, and water; and social regulations such as those dealing with the health and safety of workers and consumers.

Summaries of the discussions and proceedings of the conferences were published in the Council's quarterly magazine *Au Courant* (vol. 2, nos. 2 and 3).

Conference on Inflation-Induced Distortions in Financial Reporting and Taxation

In its Sixteenth Annual Review, the Council warned that under existing Canadian tax rules inflation imposes an extra burden on many corporations. Because conventional financial reporting relies heavily on historical costs, it fails to reflect accurately the changing real value of the basic unit of measurement – the dollar – during inflationary periods. A variety of organizations and professional bodies have proposed methodologies for correcting the distortions caused by inflation in financial reporting and taxation.

Given the complexity of the issue, the Council felt that an important contribution to the debate could be achieved by inviting experts and interested people to participate in a conference. Held in Toronto in October of last year, the conference was organized with the participation of the Canadian Institute of Chartered Accountants, the Canadian Manufacturers' Association, the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, and the Canadian Tax Foundation. Discussions focused on the different approaches that have been proposed, as well as on their implications for various aspects of economic activity, such as investment decisions, taxation policies, and industrial organization issues. The proceedings of the conference will be published later this spring and will include a summary of the discussions, as well as abstracts of the papers presented.

Seminars

In keeping with its objective of maintaining regular contact with business, labour, government, and issues-oriented interest groups, the Economic Council periodically holds seminars featuring well-known commentators on public policy issues. Policy researchers from other government agencies and departments are also invited to attend these sessions. The speakers over the past year, as well as the topics that were addressed, are included in the following list.

1981

April 2

Federal-Provincial Fiscal Arrangements
and the Conduct of Stabilization Policy
Pierre Fortin, Université Laval

April 16

Public Utility Finance and Economic
Waste
G. Jenkins, Harvard University

October 1

QWL, Organization Design and the
Canadian Textile Industry
P. Clark, University of Aston in
Birmingham

November 30

The Evolution of Industrial Policies in
Canada: An Historical Survey
M. Bliss, University of Toronto

December 16

Nuclear Energy and Canada's Energy
Options
F. Belaire, Atomic Energy of Canada
Limited

1982

January 25

Timber Supply in Canada: Emerging
Deficits and Projected Demand Outlook
L. Reed, Environment Canada

February 5

Internal Seminar on the Eighteenth
Annual Review
R. Preston, Performance and
Outlook Group

February 9

Renewable Energy
R. Overend, National Research Council
and D. Strange, Energy, Mines and
Resources Canada

February 11

Energy Conservation
G. Armstrong, Energy, Mines and
Resources Canada

February 12

The Economic and Policy Outlook for the
U.S. Economy
L. Atkinson, U.S. Congressional
Budget Office

February 15

The Future Outlook of Hydro-Québec
J. Bourbeau, Hydro-Québec

February 16

Soft Energy Analysis
D. Brooks, Energy Probe

March 1

Elaboration on the background research
for "Work for Tomorrow: Employment
Opportunities for the 80s"
G. Swartz, Canadian Loric
Consultants Limited



Technical and Administrative Services

Senior Management

The Council has technical and administrative services to meet the specific needs of the research staff.

The Council's reorganization of its administrative services, initiated in 1980, has now been completed. As a result, more systematic methods of administrative, financial and human resource management have been put in place. These new operating procedures are similar to those in general use in the public service and are designed to achieve a more rational and efficient management of resources.

Given the nature of the Council's work, the statistical and data processing service is of key importance; it maintains very close links with researchers. One part of this group is concerned with the writing of computer programs and the development of "software."

The other segment of the group performs a support function; it is responsible for the verification of the sources and accuracy of all data. Any tabulation or calculation appearing in Council reports is submitted to such verification before being made public.

The Council library is the other service that has close ties with the research staff. The library, which was set up shortly after the Council's creation, contains some 30,000 books, documents, reference works, and periodicals covering the subjects of economics, finance, social sciences, and statistics.

The Economic Council library is represented on the Council of Federal Libraries and the Federal Micrographic Council. It is also a depository library for federal government publications. Research is currently under way with respect to the use of computerized services in the library.

Chairman

David W. Slater

Council Directors

P. M. Cornell
P. Robert

Council Secretary

W. E. Haviland

Group Directors

Growth and Productivity
K. E. A. DeSilva

Performance and Outlook
R. S. Preston

Regional Studies (Fiscal)
D. O. Sewell

Regional Studies (Development)
N. M. Swan

Labour Markets
K. Newton

Financial Markets
A. Ryba

Technological Change,
Growth, and Productivity
N. M. Swan

Regulation Reference
R. A. Jenness

Energy
L. W. Copithorne

Explorations
R. A. Jenness

Communications Division
J. Fortin

Technical and Administrative Services
Y. Goulet



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Economic Council of Canada

and

The Right Honourable Pierre Elliott Trudeau, P.C., Q.C., M.P.

Prime Minister of Canada

I have examined the statement of expenditures of the Economic Council of Canada for the year ended March 31, 1982. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditures of the Council for the year ended March 31, 1982, in accordance with the accounting policies set out in Note 2, to the financial statement, applied on a basis consistent with that of the preceding year.

Auditor General of Canada

A handwritten signature in dark ink, appearing to read "Kenneth M. G. J." with a stylized flourish at the end.

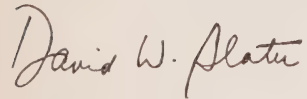
Ottawa, Ontario
June 8, 1982

Economic Council of Canada
(Established by the Economic Council of Canada Act)

Statement of Expenditures
for the year ended March 31, 1982

| | 1982 | 1981 |
|---|--------------------|--------------------|
| Salaries and employee benefits | \$5,409,834 | \$4,902,546 |
| Professional and special services | 1,050,928 | 1,680,310 |
| Accommodation | 502,000 | 400,000 |
| Publicity, publication of reports and studies | 427,296 | 363,386 |
| Travel and removal | 234,465 | 188,690 |
| Office furniture and equipment | 167,580 | 57,690 |
| Office stationery and supplies | 142,477 | 157,499 |
| Communications | 128,789 | 104,557 |
| Rental of equipment | 56,191 | 73,917 |
| Repair of furniture and equipment | 28,784 | 17,809 |
| Renovations | 21,905 | 46,983 |
| Settlement of lawsuit | 13,000 | — |
| Miscellaneous | <u>3,183</u> | <u>922</u> |
| Total expenditures | \$8,186,432 | \$7,994,309 |
| Total expenditures provided for by: | | |
| Appropriations | | |
| Privy Council Vote 20 (Note 3) | \$6,880,432 | \$6,916,309 |
| Statutory – Contributions to employee benefit plans | 717,000 | 602,000 |
| Government departments which provided services without charge | <u>589,000</u> | <u>476,000</u> |
| | \$8,186,432 | \$7,994,309 |

Approved



Chairman



Economic Council of Canada Notes to the Statement of Expenditures March 31, 1982

Authority and objective

The Economic Council of Canada was established on August 2, 1963 by the Economic Council of Canada Act. The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in the medium and long term in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

Accounting policies

The accounts of the Council are maintained on a cash basis modified to include payments made in April relating to work performed, goods received or services rendered prior to April 1 in accordance with Section 30 of the Financial Administration Act. The accounts are then adjusted, to reflect those payables at year end still unpaid by April 30.

Purchases of furniture and equipment are recorded as expenditures in the year of acquisition.

Expenditures include costs for services provided without charge by government departments.

The accounting policies are consistent with those of the Government of Canada.

Financing - Vote 20

The funds required to finance the non-statutory expenditures of the Council are provided for by parliamentary appropriation under Privy Council Vote 20. The amount of appropriation available and used from Privy Council Vote 20 is as follows:

| | 1982 | 1981 |
|---|-------------|-------------|
| Appropriation available | \$7,023,000 | \$7,596,000 |
| Less: | | |
| Amount lapsed in accordance with Section 30 of the Financial Administration Act | 142,568 | 511,691 |
| Amount frozen by Treasury Board | — | 168,000 |
| | 142,568 | 679,691 |
| Appropriation used | \$6,880,432 | \$6,916,309 |



Publications of the Economic Council of Canada, 1981-82

Annual Report, 1980-81, *David W. Slater*
(EC1-1981E - available free from the
Economic Council)

Council Reports

**Eighteenth Annual Review: Room for
Manoeuvre**, 1981 (EC21-1/1981; \$4.95
in Canada, \$5.95 other countries)

Reforming Regulation, 1981 (EC22-
93/1981E; \$9.95 in Canada, \$11.95 other
countries)

**Financing Confederation – Today and
Tomorrow**, 1982 (EC-22-103/1982E;
\$9.95 in Canada, \$11.95 other countries)

Research Studies

**The Adoption of Computer
Technology in Selected Canadian
Service Industries**
Steven Globerman, 1981 (EC22-
95/1981E; \$5.95 in Canada, \$7.15 other
countries)

**Compensation of Pollution Victims in
Canada**

John Z. Swaigen, 1981 (EC22-94/1981E;
\$7.95 in Canada, \$9.95 other countries)

**Energy Prices and Productivity Trends
in the Canadian Manufacturing
Sector, 1957-76 – Some Exploratory
Results**

E. R. Berndt and G.C. Watkins, 1981
(EC22-97/1981E; \$4.95 in Canada, \$5.95
other countries)

**The Public Regulation of Commercial
Fisheries in Canada**

Anthony Scott and Philip A. Neher (eds.),
1981 (EC22-98/1981E; \$5.95 in Canada,
\$7.15 other countries)

Farm Incomes in Canada

George L. Brinkman, 1982 (EC22-
97/1981E; \$7.95 in Canada, \$9.55 other
countries)

**Ex Post Aggregate Real Rates of
Return in Canada: 1947-76**

*A. Tarasofsky, T. G. Roseman and H. E.
Waslander*, 1982 (EC22-99/1981E; \$4.95
in Canada, \$5.95 other countries)

Periodicals

Au Courant, Vol. 2, No. 1 (available
free from the Economic Council)

Au Courant, Vol. 2, No. 2 (available
free from the Economic Council)

Au Courant, Vol. 2, No. 3 (available
free from the Economic Council)

Au Courant, Vol. 2, No. 4 (available
free from the Economic Council)

How to order

Both the consensus reports and
research studies listed above are
available across Canada from
bookstores where government
publications are sold. (A list is available
from the Council on request.) These
publications can also be ordered by mail
from the Canadian Government
Publishing Centre, Supply and Services
Canada, Hull, P.Q., K1A 0S9. (Please be
sure to include a cheque or money order
made payable to the Receiver General
for Canada.)

For further information

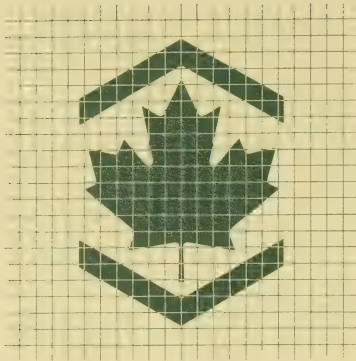
If you would like further information about
the work or the publications of the
Economic Council, please write to:
Communications Division, Economic
Council of Canada, P.O. Box 527,
Ottawa, Ontario, K1P 5V6

Annual Report 1982-83

Economic Council
of Canada

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Economic Council Conseil économique
of Canada du Canada

Chairman's Office Cabinet du président

June 30, 1983

The Right Honourable
Pierre Elliott Trudeau, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir

I have the honour to transmit the annual statement relating to the activities of the Economic Council of Canada for the fiscal year ending March 31, 1983, as required by the Economic Council of Canada Act.

Yours sincerely

David W. Slater
Chairman



A Message from the Chairman



In an interview published in *Maclean's*, Donald Macdonald, Chairman of the Royal Commission on the Economic Union and Development Prospects for Canada, was reported as saying: "Important considerations are taking place in the very favourable circumstances which for the past 35 years have enabled Canadians to enjoy an unparalleled period of economic growth."

Later in the article, referring to other commentators, *Maclean's* mentioned the "desperate structural problems of the Canadian economy."

Although, through the course and force of events, the Economic Council has found itself being increasingly pressed back into shorter-term perspectives as opposed to its traditional medium- to longer-term horizon, the major concern at the Council has currently been to look beyond these extremely difficult short-term problems to changes of a more fundamental kind — namely, the structural changes that have been affecting, and will continue to affect, the Canadian economy and the lives of all Canadians for some years to come.

But what are some of these structural changes? Exactly how have they been affecting us, and what are their implications for Canada and Canadians over the next quarter century?

To begin with, we can distinguish two major categories of structural change — those which are internal to our system and those which are external. In the first category, a typical example — and the most significant one — is the increased participation of women in the labour force.

Of the changes that are external to the system, those which head the list are: the aging of the population; the reduction of international trade barriers; and the enormous increase in the role

of technology and communications.

The massive surge of women into the labour force over the past decade has indeed made economic history. The majority of women in the working-age population now work outside the home for most of their adult lives. And in many important respects, we are far from having completed, or adapted to, the changes brought about by this phenomenon.

I am thinking in particular of the work still to be done in such areas as educational opportunities, access to the job market, the development of challenging and satisfying full-time employment, and reasonable choices with respect to full- or part-time work.

Then there are the ancillary questions arising from the situation and for which society must find answers. These include arrangements such as the development of appropriate pension, health care, and day care systems. The belief that we now have most of these problems behind us, I think, quite mistaken.

The aging of Canada's population, together with the remarkable increase in life expectancy, is a structural change that clearly lies ahead of us. We have watched the postwar "baby boom" as it has worked its way in waves through the different age groups in the population. Our society had adapted itself to the phenomenon in providing the educational and other facilities required. But with the vanguard of the boom currently approaching middle age, it is clear that some careful planning is required now in anticipation of an unprecedented bulge in the elderly population group.

While there are still some uncertainties about the precise degree and timing of the various changes that will be brought about, two quite major implications stand out: first, we, as a society, will have to set aside far more of our collective

income for retirement income; and, second, there will be a strong upward pressure on health care costs. In both of these cases, major involvement by governments is inevitable.

In the area of international trade, I think all but the extreme protectionists would admit that Canada has benefited greatly from the increased international specialization and trade that has taken place since the late 1930s. These trends reflect a combination of forces — reduced trade barriers; improved communications; a freer flow of capital, people, and knowledge; and the efforts made by the Canadian private sector as well as by governments, to achieve and exploit competitive opportunities in world markets.

Finally, most new and improved technologies have been adopted in Canada — some very promptly and efficiently, others less so. The enormous increase in the role of technology, communications, electronics and related fields has probably constituted the biggest change in industrial structure that has occurred in a long time — I think even greater than the development of the chemical industries.

Here we have a few examples of changes that are quite fundamental and that give rise to a number of questions. The most pressing of these is the concern that these changes will lead to a widespread displacement of existing jobs which, together with a limited choice of alternative jobs and in the absence of timely and appropriate policies, could lead to massive permanent unemployment for a substantial proportion of the labour force.

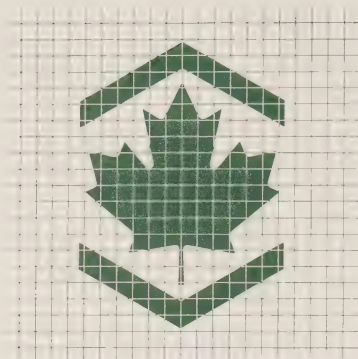
One thing does seem clear: large structural changes, whatever their origin, are bound to involve government activity. If it's a question of changes in industrial structure, then almost inevitably governments are going to

be pressed into trying to ease or overcome some of the problems. A normal response to this would be that governments should indeed get on with the job, instituting whatever policy measures are deemed necessary.

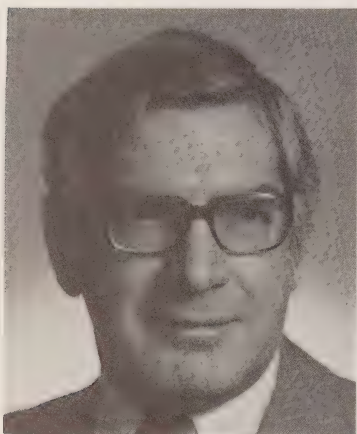
However, there is the problem — indicative of the times — that many people are no longer confident that governments can muster the kind of popular support necessary to even begin to tackle so many problems with such far-reaching consequences. And that raises the fundamental dilemma concerning the relationship between these structural changes and, among other things, the longer-term aspects of fiscal and monetary management. These are central questions that everyone will be faced with — questions that we at the Council must face up to.

In the course of thinking about these questions, we ourselves have gone back over the experience, the studies, and the recommendations that have been central to the work of the Economic Council over the 20 years of its life. This has led us to see how some of the things that lie ahead are continuations of changes that have been going on over the past few years, while other phenomena are relatively new and different.

In much of our recent and continuing work at the Council — including the work on labour markets and some of the work on technological change and on productivity — some aspects of structural adjustments are considered. What we are concerned with now is pulling these various facets of structural adjustment together so that they will form a cohesive whole — a framework encompassing and highlighting the macroeconomic and structural picture in a useful and believable way.



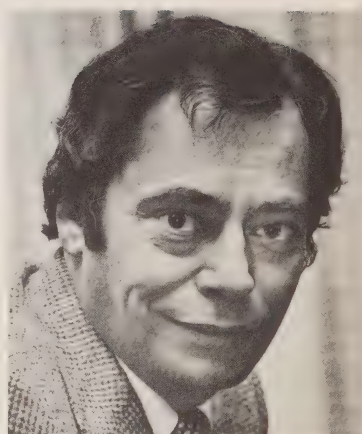
Members of the Economic Council of Canada



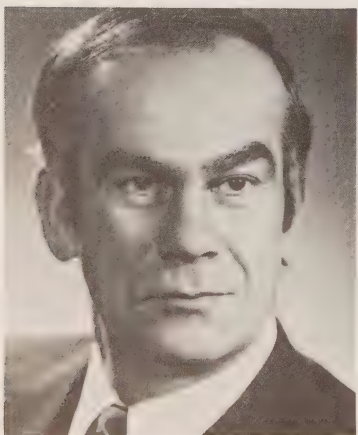
David W. Slater
Chairman



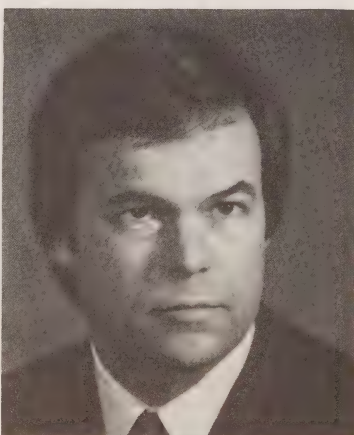
Peter M. Cornell
Director



Patrick Robert
Director



Philip C. Barter
Partner
Price Waterhouse and Co.
Vancouver



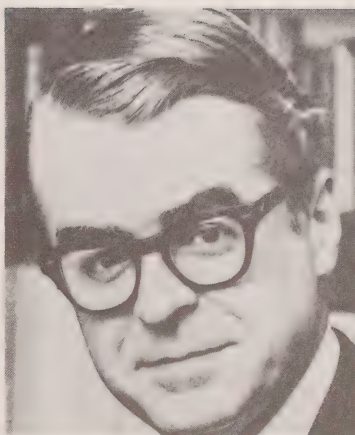
Pierre Brien
Vice-President
Canada Lands Company (Mirabel) Ltd.
Ste-Scholastique



Paul-Émilien Dalpé
Former Labour Leader
St-Jérôme



G. Campbell Eaton
Managing Director
Newfoundland Tractor and Equipment Co. Ltd.
St. John's



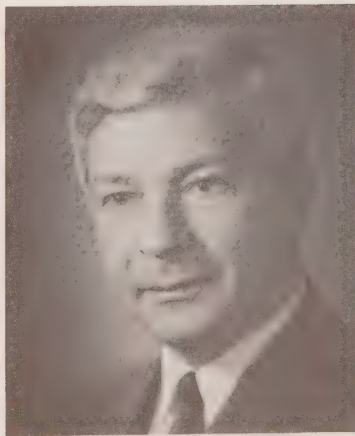
Donald F. Forster
President
University of Guelph
Guelph



Shirley B. Goldenberg
Professor,
Faculty of Management
McGill University
Montreal



T. Earle Hickey
Former Minister of Finance of P.E.I.
Charlottetown



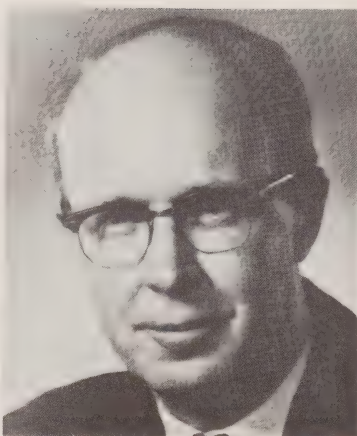
Kalmen Kaplansky
Senior Fellow
Human Rights Centre
University of Ottawa
Ottawa



Pierre Lortie
President
Montreal Stock Exchange
Montreal



Donald H. McDougall
Partner
Stewart MacKeen & Covert
Halifax



Alastair H. Ross
President
Allaro Resources Ltd.
Calgary



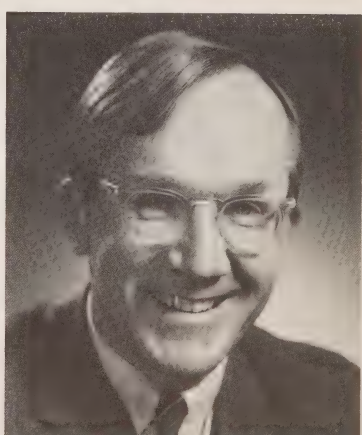
Gerald V. Schuler
Chief Executive Officer
Co-operative College of Canada
Saskatoon



Patrick Shimbashi
Farmer
Taber, Alberta



Ralph G. M. Sultan
Vice President
Starlaw Holdings Limited
Toronto



Douglas P. Thomas
Vice-President
Toronto Investment Management Inc.
Toronto

Appointments and Resignations



Roy Vogt
Professor
St. Paul's College
University of Manitoba
Winnipeg

During the year ending March 31, 1983, the following new members were appointed:

P.-É. Dalpé (October 26, 1982)
G. V. Schuler (October 26, 1982)
D. P. Thomas (October 26, 1982)
J. I. Zucker (October 26, 1982)

The following members resigned:

P. L. Paré (June 29, 1982)
M. S. Dobrin (September 21, 1982)
R. B. Bryce, (December 6, 1982)
E. Forbom (January 17, 1983)



J. Irving Zucker
President
Re-Vest Holdings Limited
Hamilton



The Economic Council of Canada

The Economic Council of Canada was created by an Act of Parliament in 1963, at a time when the Canadian economy had undergone a period of unsatisfactory growth and what people then considered unsatisfactory price performance. Governments in Canada, as in many other countries, wanted advice, information, and analysis with respect to policy alternatives.

In contrast to its predecessor — the National Productivity Council — the Economic Council was designed to take a somewhat broader, comprehensive approach and was given a number of statutory responsibilities that included:

- a regular assessment of the medium- and long-term prospects for the economy, at the same time comparing those prospects with the potentialities for economic growth;
- appraisal of national economic policies to determine how they can best foster the balanced economic development of all areas of Canada;
- the encouragement of maximum consultation and co-operation between labour and management; and
- full and regular consultation with appropriate agencies of the provincial governments.

The Council was also assigned the important role of increasing public understanding of major economic policy issues and thereby encouraging public debate.

The Act itself, the ensuing discussion in Parliament, and the positions taken by the first Chairman, Dr. John Deutsch, caused the organization to take on several important characteristics. It became an independent, national, advisory agency focusing on the medium to longer term.

It is independent in the sense that it operates under its own Act, with

the ability both to undertake its own research and to publish on its own initiative, as well as to undertake studies at the request of the federal government. (Requests for such studies are sometimes initiated by the provincial governments through a request to the Prime Minister of Canada.) It is national because its mandate extends to matters of national interest rather than matters of paramount concern to the federal government alone.

It is also advisory but in a special sense. The first Chairman turned down requests to act as a confidential advisor to the government or to become directly involved in its policy-making operations. Instead, he insisted that conclusions be reached only on the basis of prior research and analysis and that the results be made available to Council Members for assessment, discussion, and recommendations before being made public.

The Council meets its objectives by fulfilling three important roles: it provides research, information, and advice.

Research is, of course, the Council's lifeblood, but it is not a research institution in the usual sense. The research undertaken is focused squarely on specific issues, and it does not normally include work of a more broadly ranging nature.

Over time, however, there has been a deliberate attempt to strengthen the Council's research capabilities, to accomplish more with given resources. New research by staff has been supplemented by research contracts and, in the early 1970s, by a shift to task forces, each concentrating on a specific topic.

The *advisory* and *consultative* function involves the Council Members, who comprise the Chairman, two full-time Directors, and up to 25 part-time Members from various segments of

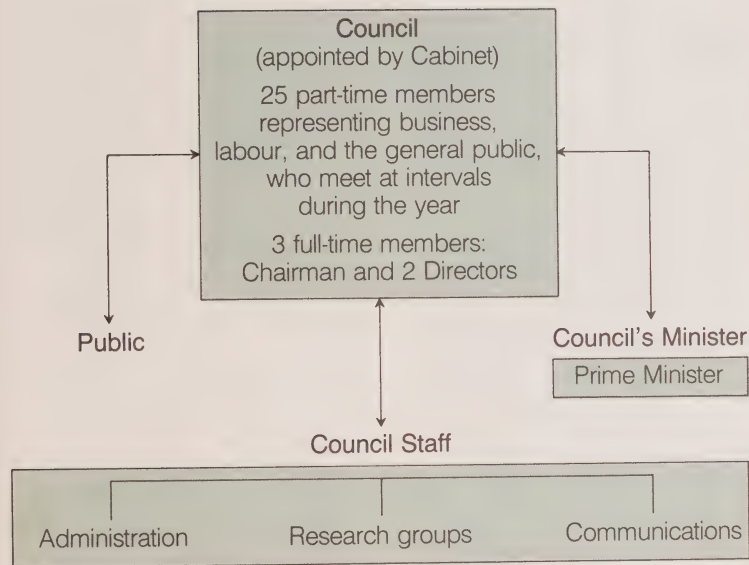
Canadian society. They meet four or five times a year to develop economic policy advice and recommendations for governments and the private sector. Council Members also promote consultation and co-operation between labour and management, as well as a variety of other agencies.

The Council's *information* role is carried out with the aid of all the communications media primarily through printed documents, including the Annual Reviews and other Council reports, for which the Council as a whole takes full responsibility, and various authored documents, such as Research Studies and Discussion Papers.

Economic activity involves virtually every aspect of daily living, and the Council's work has ranged from studies on logging in Newfoundland to the cost of housing in Alberta. It has looked into income disparities among language groups in Montreal, the price of eggs, pension reform, federal-provincial fiscal arrangements, and many other areas that, together, make up Canada's complex economy.

Since its creation, the Council has played a significant role in discussions of public policy. The Council's early work on education is credited with encouraging substantial public support for education. Its studies on labour markets and manpower requirements led to the creation of government-supported programs to train Canada's labour force. Its systematic concern for regional development and economic disparity between regions led to the creation of a federal department to deal with the issues that the Council's research had identified. Over the past 20 years, the Economic Council has also contributed to raising the level of economic education and awareness in Canada.

Council
Organization
and Reporting
Relationships





Research Activities

The Council's research program is conducted by several project groups comprised of professional staff with advanced training in economics and varied experience in universities, government, and industry. The full-time staff is often augmented by consultants with specialized knowledge in specific research areas.

Twentieth Annual Review

The Twentieth Annual Review, to be published in the autumn of 1983, will continue to focus on economic performance and the prospects for future growth. Special issues examined this year will include an attempt to determine which groups are benefiting the most, and which are benefiting the least, from de-escalating inflation, and how well the income-security safety nets are holding up in the face of persistently high unemployment. The medium-term projections and policy simulations developed by the CANDIDE Group will make a major contribution to the Review.

CANDIDE

The task of preparing the medium- and long-term projections of the Canadian economy for the Council's Annual Reviews is assigned to the CANDIDE Group. The research program carried out by the Group for the Nineteenth Annual Review centered on the development of three alternative projections: a base case, an optimistic case, and a pessimistic case. The pessimistic case combined a lower U.S. growth scenario, lower international oil prices and reduced megaproject activity in its set of assumptions; the more optimistic case combined a higher U.S. growth scenario, higher international oil prices, a lower personal savings rate, and reduced wage expectations.

For the base case and for the two alternatives, Canada's medium-term prospects were found to be encouraging in some areas and to need improvement in others. The most stubborn problem exhibited in all three cases was the continuation, over the medium term, of high unemployment rates and large federal deficits. The projections did, however, contain encouraging signs that inflation rates would eventually decline into the single-digit range and continue to fall until mid-decade.

Aside from its work on the Annual Review, the CANDIDE Group also supported research within the Council. For example, the Group undertook several studies to determine the impact of lower energy prices on Canadian economic performance. It also participated in a seminar sponsored by the Bank of Canada and the Department of Finance on the performance of various econometric models. This seminar was attended by all the other major modeling groups in Canada, and from it evolved a volume of papers on model use and model performance, as well as some suggestions with regard to the direction of future research.

Technological Change, Trade, and Income Growth

The recent slowdown in the growth of real income per capita, and in productivity is being studied by the Project Group on Technological Change, Trade, and Income Growth. The work of this Group will culminate in a Council report on issues related to growth in living standards, with emphasis on the problems and challenges faced by governments in promoting technological advance, and on adjustment to changes in international trade. This report is

planned for publication in the spring of 1983.

The Group is also producing separate studies on several specific areas of its investigation, including evaluation of various government programs of assistance to research and development; the ways to make international comparisons of Canada's R&D expenditures; the effect on sales and productivity in Canadian industries of changing levels of trade barriers; and the diffusion of new technology in the service sector in Canada.

Labour Markets

The work of the Labour Markets Group culminated in the publication of a major Council report, entitled *In Short Supply: Jobs and Skills in the 1980s*, in June 1982.

The major issues examined in the report include the extent to which unemployment is of the short-spell, turnover variety or, conversely, is a more deep-seated, long-lasting phenomenon; the identification of present and future shortages of skilled labour; the relationships between vocational training and labour market requirements; the role of information in the adjustment process; and the potential role of job-creation policies.

Growth and Productivity

The research of the Growth and Productivity Group is focused on policies to increase productivity as a key means of improving Canadian economic performance. The research will attempt to utilize and integrate both macro and micro analysis, neither of which is sufficient on its own to gain an understanding of the recent productivity trends; it will also evaluate a variety of policies aimed at stimulating, and removing impediments to, economic

growth and productivity. The analysis will include an examination of all inputs — not just technical change — as they contribute to the production process. The results of the group's work are scheduled for publication in 1984.

Productivity growth results from decisions taken by firms in their attempts to minimize production costs, and many of those decisions are affected by government policies. For this reason, much of the analysis will be based on models of decision making at the level of the individual firm.

The final report will consider a number of policy-sensitive issues, such as the effect of pollution controls on productivity; the tax structure and its interaction with inflation and the production costs of firms; and the impact of industrial concentration and tariffs, particularly as these aspects affect the competitiveness of Canadian industry, both internationally and domestically, and the ability of firms to take advantage of economies of scale. Other issues will involve the measurement of productivity in selected service industries, such as health, education, and transportation, and a look at changes in the quality of labour over time.

Regional Studies (Development)

The mandate given the Economic Council by Parliament specifically enjoins it to include regional development among its concerns. The study of the Newfoundland economy, published in 1980, was the latest in an extensive body of work undertaken by the Council in order to promote an increased understanding of the economies of Canada's regions.

The Council is now working on a western study, which incorporates research in several areas —

transportation, forestry, agriculture, mining, manufacturing, migration to the West, and developments in the service sector.

In order to facilitate consultations and to maintain a permanent presence in the West throughout the course of the research project, the Council has opened a western office at the University of Alberta.

Financial Markets

Government credit and credit guarantee programs have grown at a rapid pace over the past two decades and have had a significant effect on Canada's economy. A Council report entitled *Intervention and Efficiency: A Study of Credit and Credit Guarantees to the Private Sector* was prepared by the Financial Markets Group and was released in November 1982. The report focuses primarily on the credit guarantees extended by federal and provincial governments to business, agriculture, export trade, and housing. These four sectors of economic activity have been the recipients of over 80 per cent of government loans outstanding and guarantees in force to the private sector.

The report analyses the nature and scope of government intervention and the objectives pursued; the environment in which such intervention takes place, including the state of the financial market; the impact that this form of government activity has on financial and real resources allocation and on stabilization policies; and the efficiency with which financial assistance is delivered. The report attempts to determine whether this form of government activity is appropriate to the needs of the 1980s, and it presents recommendations that the

Council believes will lead to a more efficient presence of governments in financial markets.

Energy Issues

Energy developments have become so important to the functioning of the Canadian economy that the Economic Council feels a need to devote more of its attention to them. While several of its research groups have been looking at energy policies and issues during the normal course of their work, the Economic Council decided in December 1981 to undertake a research program that would focus on energy issues alone. The results of this research will appear in a Council report and some supporting research studies to be released by the end of 1984.

The central concern is to find some common ground in Canada's energy policy debates and to develop economic strategies that will be helpful to governments and energy industry participants. Such concern leads to many questions, ranging from the activity of governments in the energy industry to the pricing of alternative energy commodities. Approaches to economic development, taxation and royalty issues, methods of sharing energy revenues, and the financial consequences for regions and governments will also be considered. Other topics under study by the Group include Canadian ownership policies, interprovincial trade in energy, export and import policies, and changes in organizational structures.

Research projects will focus on various topics. There will be a study of international energy markets as a backdrop to Canadian energy policy making; a study of federal and provincial energy policies, studies pertaining to the domestic supply of crude oil,

natural gas, synthetic and frontier oil, and electricity from various sources, as well as a study of energy demands. The Council will not attempt to produce a comprehensive energy forecast, since that work is done by the National Energy Board. Instead, the Council will attempt to learn more about the responsiveness of energy supply and demand to different taxation and regulation strategies in order to see how these might be better adapted to the goals that the energy-policy makers are pursuing.

Explorations

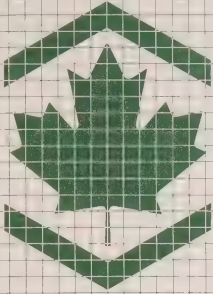
The Explorations Group was established to undertake a preliminary investigation of various economic issues to determine their nature, scope, and pertinence, as well as to carry out small projects. By increasing the Council's sensitivity to issues and problems that need to be addressed, the work of the Group helps to determine the Council's future research program. Research by the Explorations Group has also contributed to the Council's Annual Reviews.

Among the topics studied by the Group in the past fiscal year were the problems faced by women in the labour market and the implications of improving their working conditions; the efficiency and equity effects of the existing Canadian taxation structure, with respect to capital income, and of certain alternative structures; the

changing nature and implications of government intervention in the economy by means of government enterprises; various economic issues in the delivery of health care in Canada; and the development of various inflation-adjusted economic indicators and measurements.

Feasibility studies of two of these topics — the taxation of capital income and the role of government enterprises — led to recommendations by Council Members at their last meeting of 1982/83 for proceeding with full-scale studies in those areas. These new project groups will begin operating in early 1983/84.

Advisory and Consultative Activities



The advisory and consultative activities of the Economic Council involve full- and part-time Council Members in the development of economic policy advice and recommendations to governments and the Canadian public in general, and the promotion of consultations with various socio-economic groups.

Council Members are collectively responsible for setting priorities for research and analysis and for the recommendations incorporated in Council reports. They also serve on advisory subcommittees set up for each major research project. Aside from the regular meetings of the Council, these subcommittees meet at intervals with the staff working on the projects concerned. Representatives of outside interest groups are often invited to participate in these subcommittee meetings in a consultative and advisory capacity.

Three major Council reports were released in 1982/83. In a report on Canadian labour markets, *In Short Supply: Jobs and Skills in the 1980s*, the Council recommended the creation of local councils to identify training needs and set up appropriate programs, government support for training in industry, increased government funding for nontraditional training for women, and action on apprenticeship training and educational leave.

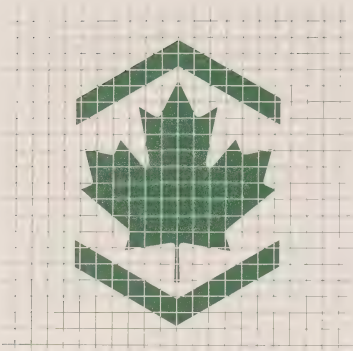
The Council's Nineteenth Annual Review, *Lean Times: Policies and Constraints*, included a number of recommendations in the areas of inflation and unemployment, federal government spending and deficit reduction, monetary policy and high interest rates, Canadian ownership of the oil and gas industry, wage controls, prebudget consultation, business tax legislation, and indexation of personal income tax and transfer programs.

In the Council's report on Canada's financial markets, *Intervention and Efficiency: A Study of Government Credit and Credit Guarantees to the Private Sector*, action was recommended in the following areas: introduction of the indexed mortgage in both the housing industry and agricultural sector; a strengthening of the equity base of Canadian firms; and a number of initiatives in the field of export credit and credit insurance.

Although Council recommendations are clearly set out in its published reports, these recommendations are conveyed to decision makers, for possible incorporation into their policies and programs, in other ways as well. Full-time Council Members and Directors, on behalf of the whole Council, elaborate on recommendations and analyses before Parliamentary committees such as the Commons Standing Committee on Finance, Trade and Economic Affairs, the Senate Committee on National Finance, and special Commons or Senate committees on subjects ranging from employment, pensions and technological change, to alternative energy and oil substitution.

Full-time Council Members also engage in briefing sessions with cabinet ministers, caucuses of political parties and senior officials of federal departments and agencies. In addition, they are the principal spokespersons at regular meetings with provincial premiers, cabinet ministers and departmental/ministry officials, as well as with various socio-economic groups in the private sector, including business and labour leaders.

Information and Communications Activities



The need for better information on economic issues and for public discussion of future options has led the Council to place greater emphasis in recent years on its information services to, and communications with, the public. The Council's Communications Division naturally plays a key role in planning and implementing a comprehensive communications strategy.

This includes a media relations program and the provision of public information, the publication and distribution of Council documents in both official languages, and an extensive speech program to promote Council reports and recommendations. In addition, the Council publishes a quarterly magazine and sponsors public conferences on topics related to its ongoing work.

The objective of the media relations program is to maintain close and systematic contact with representatives of the country's print and electronic media, encouraging them to look to the Council for authoritative information on economic issues. This is done mainly through the organization of press conferences, briefings, and interviews.

The Council has released three major reports and several authored studies over the past year. Publications such as these provide an important link with the Canadian public, the objective being to enhance public understanding of various economic issues and to encourage public discussion of possible strategies and workable solutions.

A natural outgrowth of this part of the Council's information work is a year-round speech program undertaken by the Council's Chairman and two full-time Directors. The program is designed not only to promote major Council reports, with their recommendations on

diverse economic issues, but also to bring the results of Council work to the widest possible audience. Frequent forums include economic, financial and business associations, academic institutions, chambers of commerce and service clubs.

Another facet of the Council's communications program is the publication of a quarterly magazine, *Au Courant*. Designed to reach a wide audience, the magazine features articles on current projects and published documents, with considerable space being devoted to major Council reports. *Au Courant* is distributed free of charge, in both official languages, to a readership of more than 40,000, including business people, policy makers at the three levels of government, union members, teachers and students, and the public at large.

The greater emphasis placed by the Council on communications and information services over recent years has resulted in a substantially expanded press coverage and wider diffusion of Council documents. Similarly, requests for radio and television interviews, speeches and meetings featuring the Council's Chairman and Directors have increased markedly.

Conferences

The organization of public conferences forms an important element of the Council's communications strategy. The conferences are intended to stimulate discussion of the Council's work and recommendations and to give representatives of various industries, labour organizations, government, and universities an opportunity to respond to the issues raised in Council reports and studies.

Conference on the Impact of Regulatory Reform in Canada and the United States

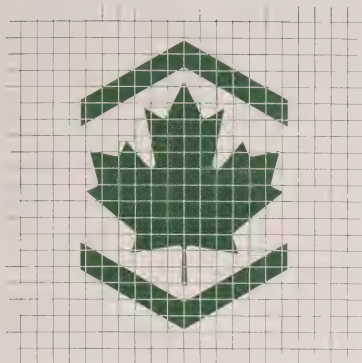
Key issues raised by the reform of regulation in both Canada and the United States were the subject of a major conference held in Toronto in May 1982. Sponsored by the Economic Council of Canada and the Institute for Research on Public Policy, with participation from the American Enterprise Institute for Public Policy Research, the conference attracted over 180 delegates from government, universities, and the private sector across North America.

During the first day of the event, guest speakers discussed changes in broad areas of regulation, and their impact upon the two countries. Topics included the reform of economic regulation in telecommunications and transportation, regulation of the environment and the workplace, and the role of antitrust or competition policy following deregulation.

The second day of the conference was devoted to concurrent sessions on the impact of regulatory changes, and proposals for reform in specific industries and sectors: the environment, airlines, telecommunications, surface transportation, and energy.

The list of speakers included the Honourable Donald Johnston, then President of the Treasury Board of Canada, William Niskanen, a member of President Reagan's Council of Economic Advisers, and consumer advocate Ralph Nader, of the Centre for Study of Responsive Law, in Washington.

Summaries of the discussions and proceedings of the conference were published in the Council's quarterly magazine *Au Courant* (Vol. 3, No. 1).



Technical and Administrative Services

Senior Management

The Council has technical and administrative services to meet the specific needs of the research staff.

General Administration

The General Administration Group provides four principal types of service — namely administrative, personnel, financial, and library services. All are designed to support the work of the research and other service groups. While each of the other groups has authority over the resources required to fulfill its responsibility, the overall financial, personnel, property, and records administration rests with the General Administration Group. As well, this Group provides library services, material supplies and supplementary word processing services to the research groups.

General Administration is also required to assure that the Council's administrative procedures comply with government regulations and directives; to provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources; and to develop overall plans and strategies with respect to the expected output performances and resource input requirements over the short to medium term. In each of the above specified tasks, General Administration requires informational inputs from other groups, together with direction and final approval from the Council's senior management.

The Council Library has close ties with the research staff. The Library, which was set up shortly after the Council's creation, contains some 30,000 books, documents, reference works, and periodicals covering economics, finance, social sciences, and statistics.

The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council. It is also a depository library for federal government publications.

Under conditions of the new legislation pertaining to freedom of information, the Library and other service units of the General Administration Group will provide public access to Council material.

Data Processing Group

During fiscal year 1982/83, the Data Processing Group introduced new technology in several areas of the Council's work.

On-line transaction processing was successfully applied in support of administrative systems, resulting in management information being available in a more timely manner and being produced at lower cost. Other systems using this approach are being developed in support of the Library and for other areas.

The use of modern colour plotting and small-computer technology is being investigated with a view to providing more cost-effective data manipulation and data analysis tools to support the research function.

In addition to the above activities, the Data Processing Group continued with software development, data acquisition and verification, and other services.

Chairman

David W. Slater

Council Directors

Peter M. Cornell

Patrick Robert

Council Secretary

W. E. Haviland

Group Directors

Twentieth Annual Review

R. A. Jenness

Growth and Productivity

K. E. A. De Silva

CANDIDE

R. S. Preston

Regional Studies (Development)

N. M. Swan

Labour Markets

K. Newton

Financial Markets

A. Ryba

Technological Change,
Trade, and Income Growth

N. M. Swan

Energy

L. W. Copithorne

Explorations

D. O. Sewell

Communications

J. Fortin

General Administration

D. M. Paproski

Data Processing

R. Goguen



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

Economic Council of Canada

and

The Right Honourable Pierre Elliott Trudeau, P.C., Q.C., M.P.

Prime Minister of Canada

I have examined the statement of expenditure of the Economic Council of Canada for the year ended March 31, 1983. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditure of the Council for the year ended March 31, 1983, in accordance with the accounting policies set out in Note 2 to the financial statement, applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, appearing to read 'Kenneth M. Dye'.

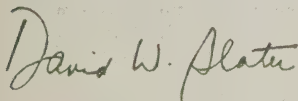
Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Ontario
June 3, 1983

Statement of Expenditure
for the year ended March 31, 1983

| | 1983 | 1982 |
|--|---------------------|---------------------|
| Salaries and employee benefits | \$ 5,599,021 | \$ 5,409,834 |
| Professional and special services | 1,103,332 | 1,050,928 |
| Accommodation | 503,000 | 502,000 |
| Publicity, publication of reports and studies | 259,236 | 427,296 |
| Travel and removal | 235,449 | 234,465 |
| Office stationery and supplies | 153,231 | 142,477 |
| Communications | 124,380 | 128,789 |
| Office furniture and equipment | 63,409 | 167,580 |
| Rental of equipment | 53,743 | 56,191 |
| Repair of office furniture and equipment | 36,525 | 28,784 |
| Renovations | 19,213 | 21,905 |
| Settlement of lawsuit | — | 13,000 |
| Miscellaneous | 2,464 | 3,183 |
| Total expenditure | \$ 8,153,003 | \$ 8,186,432 |
| Provided for by: | | |
| Parliamentary appropriations | | |
| Privy Council Vote 20 (Note 3) | \$ 6,815,603 | \$ 6,880,432 |
| Statutory – Contributions to employee benefit plans | 734,400 | 717,000 |
| | <u>7,550,003</u> | <u>7,597,432</u> |
| Services provided without charge by government departments | 603,000 | 589,000 |
| | <u>\$ 8,153,003</u> | <u>\$ 8,186,432</u> |

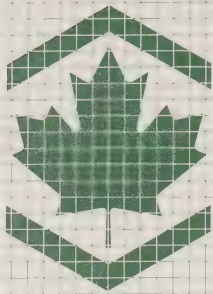
Approved by the Council:



Chairman



Director, General Administration



Economic Council of Canada Notes to Financial Statement March 31, 1983

Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental Crown corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

Accounting policies

Expenditure includes the cost of work performed, goods received or services rendered prior to April 1.

Purchases of office furniture and equipment are recorded as expenditure when acquired.

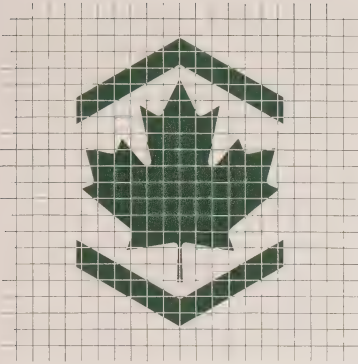
Expenditure includes costs for services provided without charge by government departments.

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan and contributions are charged to expenditure when paid.

Refunds of previous years' expenditure are recorded as revenue of the Government of Canada when received and are not deducted from the expenditure of the Council.

Parliamentary appropriation-Privy Council Vote 20

| | 1983 | 1982 |
|--|---------------------|---------------------|
| Appropriation available | \$ 7,150,000 | \$ 7,023,000 |
| Lapsed in accordance with Section 30 of the Financial Administration Act and Treasury Board Circular 1979-41 | 334,397 | 142,568 |
| Appropriation used | \$ 6,815,603 | \$ 6,880,432 |



Publications of the Economic Council of Canada, 1982-83

Annual Report, 1981-82,
David W. Slater (EC1-1982E —
available free from the Economic
Council)

Council Reports

**Nineteenth Annual Review, Lean
Times: Policies and Constraints, 1982**
(EC21-1/1982E; \$5.00 in Canada,
\$6.00 other countries)

**In Short Supply: Jobs and Skills in the
1980s, 1982** (EC22-108/1982E; \$7.95
in Canada, \$9.55 other countries)

**Intervention and Efficiency: A Study
of Government Credit and Credit
Guarantees to the Private Sector,**
1982 (EC22-111/1982E; \$9.95 in
Canada, \$11.95 other countries)

Conference Proceedings

**Peering Under the Inflationary Veil:
Proceedings of a Conference on
Inflation-Induced Distortions in
Financial Reporting and Taxation,**
1982 (EC22-106/1982E; \$6.95 in
Canada, \$8.35 other countries)

Research Studies

**Meeting Skill Requirements: Report of
the Human Resources Survey**
G. Betcherman, 1982 (EC22-100/1982E;
\$6.95 in Canada, \$8.35 other countries)

The Choice of Governing Instrument
*M. J. Trebilcock, R. S. Prichard,
D. G. Hartle and D. N. Dewees*, 1982
(EC22-101/1982E; \$8.95 in Canada,
\$10.75 other countries)

Economic Intervention in Canadian Agriculture,

*J. D. Forbes, R. D. Hughes and
T. K. Warley*, 1982 (EC22-102/1982E;
\$7.95 in Canada, \$9.55 other countries)

**Equalization in a Federal State:
An Economic Analysis,**
R. Boadway and F. Flatters, 1982
(EC22-105/1982E; \$6.95 in Canada,
\$8.35 other countries)

**Approaches to an International
Comparison of Canada's R&D
Expenditures,**
K. S. Palda and B. Pazderka, 1982
(EC22-107/1982E; \$5.95 in Canada,
\$7.15 other countries)

**Internal Migration and Fiscal Structure:
An Econometric Study of the
Determinants of Interprovincial
Migration in Canada,**
R. Boadway and F. Flatters, 1982
(EC22-109/1982E; \$8.95 in Canada,
\$10.75 other countries)

**Job Search Behaviour, Unemployment
and Wage Gains in Canadian Labour
Markets,**
A. Hasan and S. Gera, 1983
(EC22-110/1982E; \$7.95 in Canada,
\$9.55 other countries)

**The Impact of Investment Incentives
on Canada's Economic Growth,**
C. Braithwaite, 1983 (EC22-112/1983E;
\$8.95 in Canada, \$10.75 other
countries)

Periodicals

Au Courant, Vol. 2, Nos. 1, 2, 3 and 4
(available free from the Economic
Council)

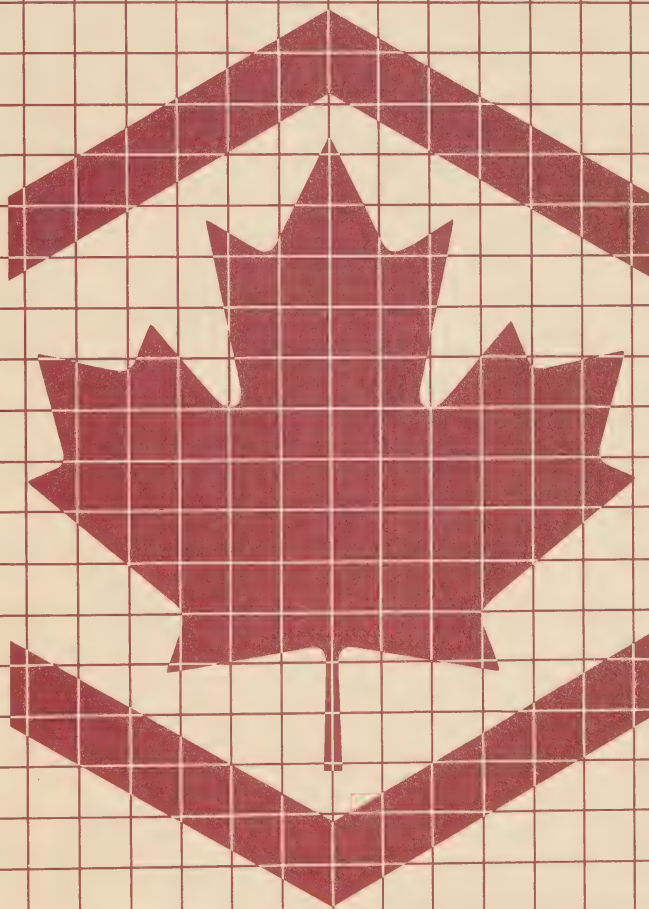
How to order

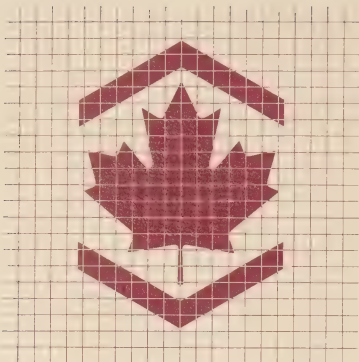
Both the Council reports and research
studies listed above are available across
Canada from bookstores where
government publications are sold.
(A list is available from the Council on
request.) These publications can also
be ordered by mail from the Canadian
Government Publishing Centre, Supply
and Services Canada, Ottawa, Canada,
K1A 0S9. (Please be sure to include a
cheque or money order made payable
to the Receiver General for Canada.)

For further information

If you would like further information
about the work or the publications of
the Economic Council, please write to:
Communications Division, Economic
Council of Canada, P.O. Box 527,
Ottawa, Ontario, K1P 5V6.

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Economic Council Conseil économique
of Canada du Canada

Chairman's Office Cabinet du président

June 29, 1984

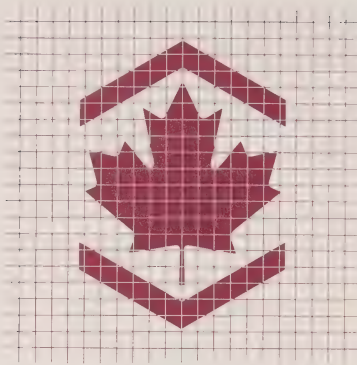
The Right Honourable
Pierre Elliott Trudeau, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir

I have the honour to transmit the annual statement relating to the activities of the Economic Council of Canada for the fiscal year ending March 31, 1984, as required by the Economic Council of Canada Act.

Yours sincerely

David W. Slater
Chairman



A Message from the Chairman



The Economic Council of Canada marked its twentieth anniversary in 1983. It provided an opportune time to look back at social and economic developments of the last two decades and to look ahead at trends for the future.

Since its creation in 1963, the Economic Council has researched, and reported on, a wide variety of topics. The integrating theme has been that of finding ways to increase the flexibility and efficiency of the Canadian economy to ensure better medium-term growth.

The 1983 Annual Review contained a set of targets for the economy and a package of proposals designed to help achieve them. Targets provide us with realistic goals and prevent us from settling for second best — a danger that Canadians face, given the mediocre economic performance of the past several years and the recent recession. The ingredients for a more successful economic and social performance exist. The challenge is to find the best way to realize that.

Ongoing research has pointed to several avenues through which our growth prospects could be substantially improved: technological advances, new organizational and management techniques, skill development, increased business investment, a bigger role for small and medium-sized businesses, and trade. There are better ways to manage our forests, to deal with the problems facing agriculture on the Prairies, to explore and develop our energy resources, and to increase productivity in the service sector.

The traditional approach to our economic ills has been through a mix of fiscal and monetary policy. While this is a necessary part of economic policy, our research has turned up other ways that are being neglected. A few examples help to illustrate this theme.

The evidence is quite clear that the current levels of investment in the forest industry are far below what makes sense in terms of guaranteeing future supplies and achieving a good return on our investment. We have known for 30 to 40 years that more is needed. A great opportunity is being missed, and each year of delay is just one more year that we have neglected to work on adequate wood supplies and consequently, means another year of declining long-term prospects for the forest industry. The main responsibility is provincial, because more than 90 per cent of the forests are owned by the provinces. As landlords, they receive most of the revenue from investment in forestry. They must either meet the costs or make arrangements whereby private investors will receive benefits commensurate with their long-term investment in forestry. Institutional arrangements and forestry investment are inadequate in Canada today.

Another example is the inadequate arrangement for transferring the ownership of farms from older to younger generations. The very heavy debt burdens now being incurred threaten future growth prospects on the Prairies.

A final example pertains to energy. The newer kinds of exploitation do pay a decent return on investment. It is not as high as that paid on energy investment in the past, but the newer techniques are capable of returning more than their costs. There is a wide range from which to choose: enhanced oil recovery, deep gas, tar sands, heavy oil, and heavy oil upgrading. Fortunately, there have been some short-term adjustments made in oil and gas policy to facilitate some of these developments. They need to be formalized, however.

Many more examples could be cited, but the above three illustrate the general proposition that Canadians have, within their own hands, many opportunities to strengthen Canada's economic growth.

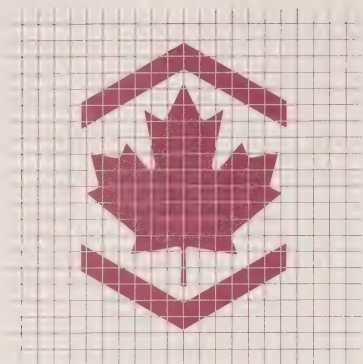
A major theme in the last Annual Review was the taking stock of social programs and policies of the last 20 years. By any standards, Canada's "safety nets" are impressive. That is not to say they should remain static. The structure and delivery of many of the programs could be improved. This becomes increasingly important with the greater participation of women in the labour force, the greater number of single-parent families, the record levels of unemployment, and the changing nature of the skills being required.

Sustained economic growth will improve our ability to carry out these programs. It will also provide the basis for changing them to meet future needs in such areas as

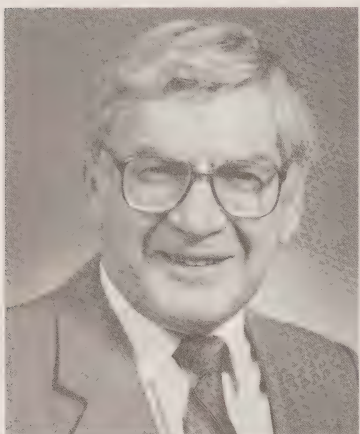
pensions, job creation, unemployment insurance, and welfare assistance.

None of these areas can, realistically, be tackled in isolation. Productivity is important for maintaining or improving our standard of living. The main impetus for sustained growth will ultimately come from the private sector — through consumer spending, investment, and trade.

The Economic Council's main concern continues to be with the medium to longer term. To achieve the potential that exists will require more flexibility in the economy. Attention must be paid to some of the underlying structural problems that have plagued us in recent years. With the recovery under way, the time is right for setting our sights a little higher and for working together to achieve an improved economic performance that will benefit all Canadians.



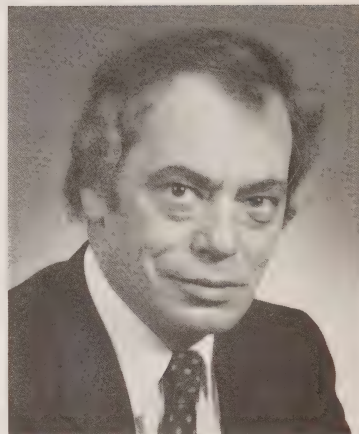
Members of the Economic Council of Canada



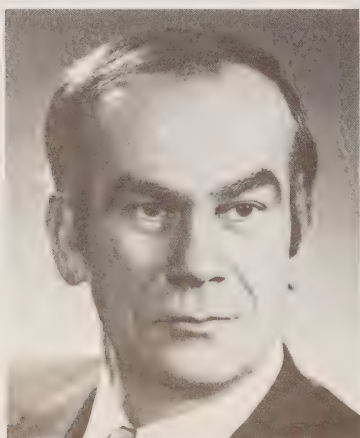
David W. Slater
Chairman



Peter M. Cornell
Director



Patrick Robert
Director



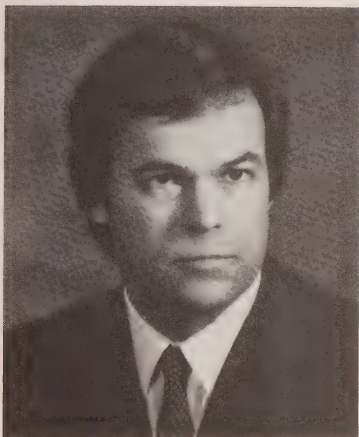
Philip C. Barter
Partner
Price Waterhouse and Co.
Vancouver



Roger O. Beauchemin
Senior Partner
Beauchemin-Beaton-Lapointe
Montreal



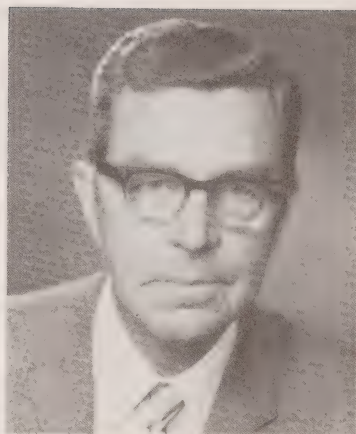
Raymond Blais
President
La Confédération des caisses
populaires et d'économie
Desjardins du Québec
Lévis



Pierre Brien
Vice-President
Canada Lands Company
(Mirabel) Ltd.



Paul-Émilien Dalpé
Former Labour Leader
St-Jérôme



G. Campbell Eaton
Managing Director
Newfoundland Tractor and
Equipment Co. Ltd.
St. John's



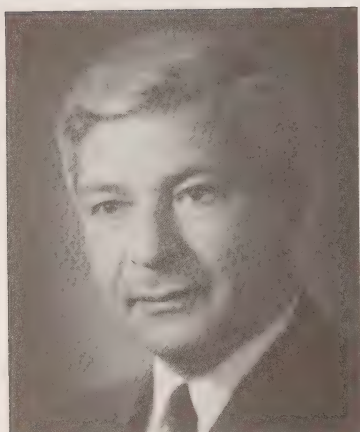
Shirley B. Goldenberg
Professor
Faculty of Management
McGill University
Montreal



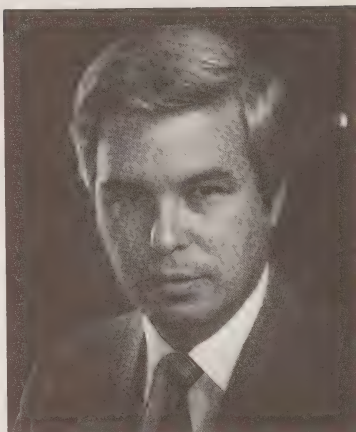
T. Earle Hickey
Former Minister of Finance
of P.E.I.
Charlottetown



Gordon L. Hill
Farmer
Varna, Ontario



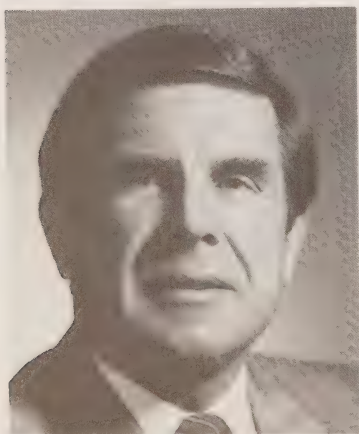
Kalmen Kaplansky
Senior Fellow
Human Rights Centre
University of Ottawa
Ottawa



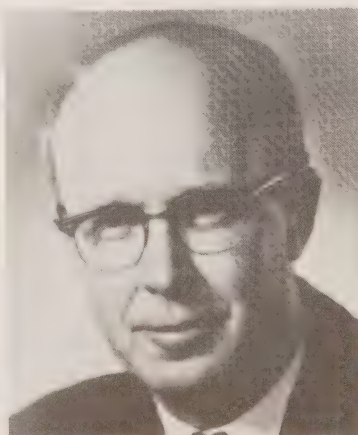
Pierre Lortie
President
Montreal Stock Exchange
Montreal



Donald H. McDougall
Partner
Stewart, MacKeen & Covert
Halifax



Peter P. Podovnikoff
Chief Executive Officer
B. C. Central Credit Union
Vancouver



Alastair H. Ross
President
Allaro Resources Ltd.
Calgary



Gerald V. Schuler
Chief Executive Officer
Co-operative College
of Canada
Saskatoon



Patrick Shimbashi
Farmer
Taber, Alberta



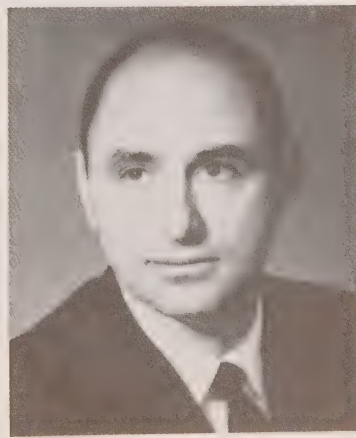
Ralph G. M. Sultan
Vice-President
Starlaw Holdings Ltd.
Toronto



Douglas P. Thomas
Vice-President
Toronto Investment Management Inc.
Toronto



Roy Vogt
Professor
St. Paul's College
University of Manitoba
Winnipeg



J. Irving Zucker
President
Re-Vest Holdings Limited
Hamilton

Death, Retirements,
Reappointments and
Appointments

During the year ending March 31, 1984, the following changes in membership took place.

The following member died:

Donald F. Forster (August 8, 1983)

The terms of the following members expired:

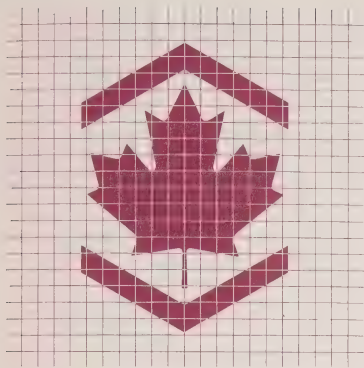
Pierre Lortie (March 5, 1983)
Alastair H. Ross (March 5, 1983)
Patrick Shimbashi (March 5, 1983)
Roy Vogt (March 5, 1983)

The following members were reappointed:

Alastair H. Ross
Patrick Shimbashi

The following new members were appointed:

Roger O. Beauchemin (September 8, 1983)
Diane Bellemare (March 15, 1984)
Raymond Blais (September 8, 1983)
Margaret Cornish-Kehoe (March 15, 1984)
Gordon L. Hill (September 8, 1983)
James F. Kay (March 15, 1984)
Peter P. Podovnikoff (September 8, 1983)



The Economic Council of Canada

An Act of Parliament created the Economic Council of Canada in 1963. As an independent national research and advisory agency, the Council's mandate is to "advise and recommend how Canada can achieve the highest possible levels of employment and efficient production in the medium- and long-term in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards."

Under its Act, the Council is able to initiate research or undertake studies at the request of the government and to publish its findings. Some of the specific tasks set out in the Act include:

- the regular assessment of medium- and long-term economic prospects and potential, and recommendations as to what government policies will help to realize that potential;
- an appraisal of how national economic policies can help to balance the economic development of all regions of the country;
- the study of how economic growth, technological change, and the world situation affect Canadian employment and income;
- the encouragement of maximum consultation and co-operation between labour and management; and
- regular consultation with provincial government agencies.

The Council's work is carried out in three main ways — namely, through research, advice, and information.

Research, of course, is the foundation for the advice and recommendations that the Council offers on ways to ensure Canada's economic well-being. Most of the work focuses on quite specific topics rather than on general subjects, with a view to the medium and longer term.

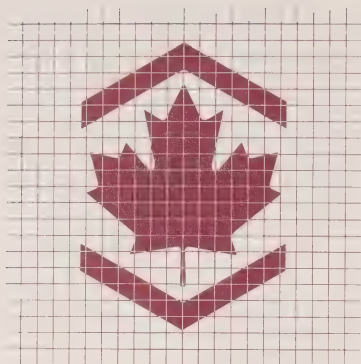
Council Members are responsible for advisory and consultative initiatives. These are undertaken by the Chairman, two full-time Directors, and up to 25 appointed part-time Members. The Council meets four or five times a year to discuss research projects and to decide what advice and recommendations are to be put forward.

Information is made available primarily through published documents, including the Annual Review and other Council reports, as well as through Research Studies and Discussion Papers, which are the responsibility of individual authors. Conferences, workshops, and media interviews also help the Council to stimulate public awareness and debate on economic issues.

Over the past 20 years, the Council has carried out research on activities ranging from egg pricing to international trade, from fishing operations in the Atlantic to logging

on the Pacific Coast, from the financing of housing to future labour market requirements.

One theme that has remained constant is the thorough examination of issues that affect Canadians in their daily lives. The goal has been to help achieve better standards of living for all Canadians by presenting our findings for public discussion and government action.



Research Activities

Council Members decide which topics will be researched and analysed. Work is carried out by the various project groups, which are made up of professional staff with advanced training in economics and experience in either universities and industry or government. Consultants with specialized knowledge may be used to augment the activities of the project groups.

Twenty-First Annual Review

The Twenty-First Annual Review, to be published in the autumn of 1984, will continue to focus on economic performance and prospects in such key areas as government deficit financing, debt management, technological change and the labour market, and adjustment of skills training and education to the changing economy, as well as on international issues. The medium-term projections and policy simulations developed by the CANDIDE group will make a major contribution to the Review.

CANDIDE

The CANDIDE Group is responsible for assessing the medium- and long-term outlook for the Canadian economy as reported in the Council's Annual Reviews. For the Twentieth Annual Review, a base case projection and several alternative projections were developed after a review of recent developments in the domestic economy and in the economies of Canada's major trading partners. The alternatives examined the effects on the base case of a wide range of uncertainties and alternative policies in both Canada and the United States.

These included the impact of both higher and lower U.S. real growth and U.S. interest rates, and the impact of domestic uncertainties. Among these were the impact of domestic interest rates, wage formation, investment plans, and the personal saving rate, which were combined to produce a series of outlooks ranging from pessimistic to optimistic.

Additional research for the Twentieth Annual Review centred on the federal deficit (cyclical vs. structural), and on the real rate of interest. Several fiscal policy alternatives to the base case were explored, including an assessment of the impact of various tax changes and changes in federal government spending.

The CANDIDE Group also supports research utilizing the CANDIDE Model for work within and outside the Council. Of special interest is the progress that has been made in the development of a new version of the model, CANDIDE 3.0. The new model will come into service in the 1984/85 fiscal year and will replace the present CANDIDE Model 2.0.

Technological Change, Trade, and Income Growth

The work of the Technological Change, Trade, and Income Growth Group culminated in the publication of a major Council report entitled *The Bottom Line: Technology, Trade, and Income Growth*, in June 1983.

The report addressed the question of how to maintain continuous growth in living standards given that there has been virtually no growth

in productivity over the last eight years. One of the means by which productivity and per capita living standards can be made to grow is by improving the process of technological change.

The major issues examined in the report include the process of innovation diffusion; the factors affecting R&D spending levels; ways to improve R&D subsidy programs; Canadian trade performance in the 1960s and 1970s; and the manner in which adjustment to freer trade takes place. Recommendations on how to broaden and improve technology and trade policy were made.

Regional Studies (Development)

Regional development prospects for the four western provinces have been examined in a major Council report due for release in the summer of 1984.

The major question addressed by the report is whether the rate of growth in the economies of the western provinces can be maintained at the same rate in the future as in the past, given that the future growth of the resource sector is expected to be lower. Issues relating to each of the major resource sectors in the West are examined, including instability in the agricultural industry; criteria for determining the optimum rate of harvesting in the forestry industry; and the management of mineral resources including oil and gas, potash, uranium, and coal. Also examined are issues relating to transportation, manufacturing,

developments in the service industries, and agglomeration economies.

The report will present recommendations that the Council believes will lead to more efficient management of natural resources and to greater emphasis on efficiency in the service sector.

Overall, the Council believes that the prospects for growth in the standard of living in the western region are generally good, provided that a few important changes are made to current policies and practices.

Growth and Productivity

The research of the Growth and Productivity Group is focused on ways to improve Canadian economic performance through increased productivity. The research utilizes and integrates both macro and micro analysis, neither of which is sufficient on its own to gain a thorough understanding of recent productivity trends. A variety of policies aimed at stimulating and removing impediments to economic growth and productivity are under evaluation. The analysis also includes an examination of all inputs — not just technical change — that contribute to the production process.

Productivity growth results from decisions taken by firms to minimize production costs. Many of those decisions are affected by government policies. For this reason, much of the analysis is based on models of decision making at the level of the individual firm.

The final report will consider a number of sensitive policy issues,

such as the effect of pollution controls on productivity; the tax structure and its interaction with inflation and the production costs of firms; the impact of industrial concentration and tariffs, particularly as they affect both the domestic and international competitiveness of Canadian industry; and the ability of firms to take advantage of economies of scale. Other issues include the measurement of productivity in selected service industries — such as health, education, and transportation — and a look at changes over time in the quality of labour.

Energy Issues

The Council's Energy Study was initiated in December 1981 during a period of great national debate on energy policies in Canada. Over the preceding decade, energy issues had continually appeared as important factors in many of the Council's reports. The Council decided that a study devoted to energy policies in Canada was therefore warranted.

The study is intended to provide practical recommendations for developing a consensus in energy and related policies, for improving the performance of the energy sector, and for maintaining its contribution to the Canadian economy. The Council has consulted widely with representatives from industry and government.

Over the past year, discussion papers have been released on the history of oil prices since 1870, on alternative energy supply and conservation technologies, and on the potential supply and cost of oil and gas in Canada.

The papers devoted to the latter topic are those which examine the cost of oil supply from a variety of sources, using various technologies, including the addition to conventional supplies in Alberta, the use of enhanced oil recovery techniques in light oil pools; extraction from tar sands using mining and in situ methods; extractions from the Beaufort Sea; and extractions from Hibernia, east of Newfoundland, and the Venture Development Project off Nova Scotia. Forthcoming studies will include: a macro-economic analysis of alternative policies in the oil and gas sector, the evolution of the electric utility industry in Canada; and an analysis of alternative financial policies in the electric utility sector, using a model developed at the Council in co-operation with the Canadian Energy Research Institute.

It is expected that the Council's Report will be released in late 1984.

Women and the Economy

The Economic Council has set up a small research project to investigate and find ways to eliminate the barriers that have confronted women in the labour market in recent years.

One chapter of the Twentieth Annual Review was devoted solely to this issue, and several recommendations were made. The results of other research relating to women have also been published. The first was a study on how marriage has inhibited the desire of women to seek jobs, and it suggests possible courses of government action to deal with the results. The second paper examined equal pay and

positive action policies to see whether their implementation would lead to improvements in the economic status of women.

Other research has dealt with the advances that women have made in the last few years; with the promotion mechanisms of various companies; and with the impact of adult training programs on the occupational diversification of women.

At present, the Council is organizing a Colloquium on the Economic Status of Women to take place in Montreal in November 1984. The main focus will be on policies to enable women to participate on an equal footing with men in the labour market. Among the topics to be discussed are: equal pay for equivalent work, day care and related services, parental leave, technological change, diversification in the workplace and in education, and factors other than wages that can affect the financial self-sufficiency of women.

The Taxation of Capital Income

In recent years, there has been a significant change in views regarding the effects of taxation on resource allocation, economic growth, and income distribution. It is in the taxation of capital income that the most dramatic attitudinal changes have occurred.

The Council's study on the taxation of capital income is intended to aid policy makers as they contemplate reforms in the years ahead. Research will focus on several aspects of this subject. It will analyse the potential impact of present and alternative tax treatments of capital income on efficient resource allocation and the

distribution of income. Recommendations will be made about ways to improve the taxation of capital income and on what transitional measures will be needed to implement those recommendations. The study will also specify any additional changes in capital markets and related financial instruments that might be required.

Government Enterprises

The role and activities of government enterprises have become the subject of considerable discussion and controversy. The Government Enterprise Group is attempting to provide some much-needed understanding about government corporations as instruments of public policy.

The focus is on government-owned and controlled entities (generally corporations) engaged in the production of marketable goods and services. Research studies are being undertaken to determine the impact of government ownership and control on various types of economic activity. Case studies will examine government ownership of provincial and municipal utilities, and government involvement in the transport, manufacturing, and resource sectors. More general studies are being carried out to determine the extent of government involvement in business and to probe the legal and institutional framework within which government corporations function.

The research is intended to provide an improved understanding of the appropriate policy role of government enterprise and to lead to recommendations for administrative and organizational changes that will make government enter-

prise a more desirable instrument of public policy.

Labour Market Impacts of Technological Change

The proposed study will examine the impact of technological change on the labour market. More specifically, the aim is to examine patterns of growth and change in employment, output, and labour requirements in various sectors of the economy, with particular emphasis on the relative performance of the "high-tech" sectors and their employment consequences. Past trends and future prospects for income distribution will be analysed, given the shifts in occupational structure resulting from technological change.

The input-output structure of the Canadian economy will be used to project the possible employment effects of technological change in various industries and occupations. These will be based upon a variety of assumptions about future levels of economic activity, as well as the pace and nature of technological change. The study also involves a survey of Canadian organizations in order to assess institutional adaptations to technological change. It will examine trends and prospects in labour-management relations, patterns of working time, compensation policy, education, training, and the quality of working life.

Finally, the study will make recommendations for policies on education, the training and mobility required by the adjustment process, the institutional adaptations accompanying technological change, and the social measures required to distribute equitably the benefits and costs.

Advisory and Consultative Activities



The advisory and consultative activities of the Economic Council fall into both internal and external categories. In this respect, they involve both full-time and part-time members in a variety of roles.

In the broadest sense, the advisory activities of the Council involve the collective membership of the Council as a whole. All members contribute to development of the economic policy advice and recommendations that are offered to governments and the Canadian public. Council Members are collectively responsible for setting priorities for research and analysis and for endorsing the recommendations that are incorporated into Council reports. In addition, both full-time and part-time members are committed to the promotion of consultations with various socio-economic groups.

Council Members may be called upon to serve on the advisory subcommittees that are set up for each major research project. These committees meet at intervals with the staff working on the projects at hand. Representatives of outside groups may also be invited to offer advice and comments on the research under way.

Two major Council reports were released in 1983-84. In *The Bottom Line: Technology, Trade, and Income Growth*, released in June 1983, the Council recommended increased government support for the adaptation and diffusion of new ideas, products, and processes; provincial funding for the dissemination of information on new techniques to industries under their jurisdiction; greater government support for trade associations to promote best-

practice technology and management methods to their members; and the greater utilization of various government instruments to introduce and develop new technology and to enhance productivity.

The Council's Twentieth Annual Review, *On the Mend*, was released in October 1983. It set out a group of five targets for economic performance and a package of recommendations designed to help achieve them. The Review looked back over 20 years of social programs and made some suggestions as to how to improve them to meet future needs. As well, the Review contained projections for economic performance over the medium term.

In addition to setting out their recommendations in published reports, Council Members actively promote those recommendations in a variety of ways. On behalf of the whole Council, the full-time Council members and Directors undertake public appearances across Canada and abroad, and they appear before Parliamentary Committees such as the House of Commons Committee on Finance, Trade and Economic Affairs, the Senate Committee on National Finance; and special Commons or Senate subcommittees, such as those dealing with pensions, energy and natural resources, and labour.

Full-time Council Members are often engaged in briefings with cabinet ministers, caucuses of political parties, and senior government officials. They are key spokesmen for the Council's objectives and concerns at meetings with provincial premiers, ministers, and departmental officials, as well as with private-sector business and labour leaders.

Of special interest over the year has been the extensive participation of Council members on the various research advisory groups of the Royal Commission on Economic Union and Development Prospects for Canada.

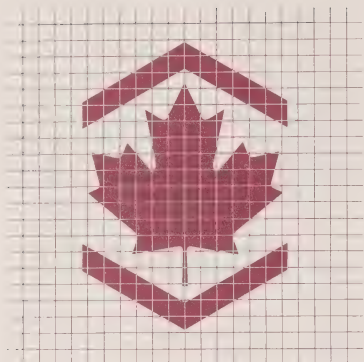
Also, consultations played an important part in the Council's project on the economic growth prospects of the West. Senior provincial government officials in each of the four western provinces, officials from regional offices of federal government departments, and university researchers were approached for their views and recommendations concerning the critical issues under study.

The consultations were fruitful in several respects: western governments and university representatives were kept informed about the course of the Council's research; and Council staff was kept informed as to western concerns and viewpoints.

In a similar vein, the Council Advisory Committee to the Energy Study met with senior representatives of the Canadian Electrical Association in September 1983 and again in November 1983. This paralleled a consultation held by the Committee with senior representatives of the oil and gas industry in Banff in April 1983. Both the oil and gas and the electric utility industry provided essential data to the Council for its research work.

Technical consultations were held with representatives of many of the electric utilities in June and October 1983 to obtain comment and advice on the development of a Canadian regional electricity model (CANREM).

Information and Communications Activities



Information is essential for any meaningful debate on economic issues and future options. The Council has increasingly placed emphasis on this aspect of its mandate in recent years. The Communications Division plays a key role in planning and implementing a comprehensive communications strategy.

Council documents are published and distributed in both official languages; a media relations program is in place; a speech program has been developed; and information is provided to the public upon request.

The Chairman and two full-time Directors promote Council reports and recommendations through speeches and meetings with representatives of the public and private sectors. During the past year, they delivered more than 50 speeches, conducted nearly 30 briefing sessions, attended numerous conferences and meetings, and appeared before several Parliamentary Committees.

The Council sponsors workshops, seminars, and conferences on topics related to ongoing projects, and it also publishes a quarterly magazine.

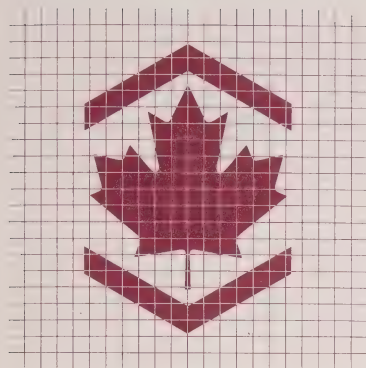
The magazine, *Au Courant*, features articles on research projects, speeches, authored studies, and discussion papers. As well, considerable space is devoted to major Council reports and their recommendations. *Au Courant* is distributed free of charge, in both official languages, to more than 40,000 readers, including teachers, students, business and professional people, journalists, union members, and policy makers at the municipal, provincial, and federal levels.

Last spring, the Council commissioned a survey of the magazine's readers. Here are some of the highlights:

- The "average" reader is a 35- to 54-year-old university-educated person in business or a profession and at the upper end of the income scale.
- 78 per cent receive the magazine at work. Most of the copies entering an office are circulated to three or more people.
- The vast majority of readers recognize the Economic Council as the magazine's sponsor, and most claim some familiarity with the Council's activities.

- Finally, many subscribers would like to see the magazine published more often (about half say they would be willing to pay to receive it).

Wider distribution of Council documents is one indication of a growing awareness on the part of the public of the importance of economic issues. Approximately 14,000 Council reports, research studies, and annual reviews were sold during the past year. There were some 20 discussion papers published and more than 12,000 copies distributed. As well, there has been a marked increase in the number of requests for speeches and media interviews.



Administrative and Technical Services

Senior Management

The Council has administrative and technical services to meet the specific needs of the research staff.

General Administration

The General Administration Group provides four principal types of service: administrative, personnel, financial, and library services. All are designed to support the work of the research and other service groups. While each of the other groups has authority over the resources required to fulfil its responsibility, the overall financial, personnel, property, and records administration rests with the General Administration Group. As well, this Group provides library services, material supplies, and supplementary word processing services to the research groups.

General Administration is required to ensure that the Council's administrative procedures comply with government regulations and directives; to provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources; and to develop overall plans and strategies with respect to the expected output performance and resource input requirements over the short to medium term. In each of the above specified tasks, General Administration requires information from other groups, together with direction and final approval from the Council's senior management.

The Council Library has close ties with the research staff. The Library, which was set up shortly after the Council's creation, contains some 30,000 books, documents, reference works, and periodicals relating to economics, finance, social

sciences, and statistics. The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council. It is also a depository library for federal government publications.

Under conditions of the new legislation pertaining to freedom of information, the Library and other service units of the General Administration Group provide public access to Council material.

Data Processing Group

In support of the Council's research, the Data Processing Group provides scientific programming, data acquisition and manipulation, and computing services.

Computing services have been provided by several commercial service bureaus in the past. During fiscal year 1983-84, the Council's computing environment has been consolidated as a single service bureau, in order to reduce costs and increase efficiency.

Scientific programming continues to be a valuable service for most research groups. Of particular interest during the past year was the implementation of the Canadian Regional Electricity Model (CANREM), in support of the Energy Group's work program.

The effectiveness of the data acquisition and manipulation service was significantly enhanced with the implementation of personal computing and colour-plotting technology. The possibility of using similar products to implement an "economist's work station" is now being investigated.

Chairman

David W. Slater

Council Directors

Peter M. Cornell
Patrick Robert

Council Secretary

W. E. Haviland

Special Advisor on Energy

P. Eglington

Group Directors

Twenty-First Annual Review

R. A. Jenness

CANDIDE

R. S. Preston

Growth and Productivity

K. E. A. DeSilva

Regional Development

N. M. Swan

Energy Issues

R. C. Zuker

Government Enterprises

R. Hirshhorn

The Taxation of Capital Income

D. O. Sewell

Labour Market

K. Newton

Communications

J. Fortin

General Administration

D. M. Paproski

Data Processing

R. Goguen



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada

and

The Right Honourable Pierre Elliott Trudeau, P.C., Q.C., M.P.

Prime Minister of Canada

I have examined the statement of expenditures of the Economic Council of Canada for the year ended March 31, 1984. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditure of the Council for the year ended March 31, 1984, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, appearing to read "Kenneth M. Dye".

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada

June 6, 1984

Statement of Expenditure
for the year ended March 31, 1984

| | 1984 | 1983 |
|---|---------------------|---------------------|
| Salaries and employee benefits | \$ 5,878,956 | \$ 5,599,021 |
| Professional and special services | 1,273,424 | 1,103,332 |
| Accommodation | 504,000 | 503,000 |
| Travel and removal | 315,689 | 235,449 |
| Publicity, publication of reports and studies | 247,453 | 259,236 |
| Office stationery and supplies | 156,632 | 153,231 |
| Communications | 126,752 | 124,380 |
| Office furniture and equipment | 53,411 | 63,409 |
| Rental of equipment | 50,854 | 53,743 |
| Repair of office furniture and equipment | 37,236 | 36,525 |
| Renovations | 28,036 | 19,213 |
| Miscellaneous | 1,510 | 2,464 |
| Total expenditure | \$ 8,673,953 | \$ 8,153,003 |

Provided for by:

| | | |
|--|---------------------|---------------------|
| Parliamentary appropriations | | |
| Privy Council Vote 20 (Note 3) | \$ 7,316,953 | \$ 6,815,603 |
| Statutory - Contributions to employee benefit plans | 747,000 | 734,400 |
| | <u>8,063,953</u> | <u>7,550,003</u> |
| Services provided without charge by government departments | 610,000 | 603,000 |
| | <u>\$ 8,673,953</u> | <u>\$ 8,153,003</u> |

Approved by the Council:



Chairman



Director, General Administration

Notes to Financial Statement
March 31, 1984

Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental Crown corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

Accounting policies

Expenditure includes the cost of work performed, goods received or services rendered prior to April 1.

Purchases of office furniture and equipment are recorded as expenditure when acquired.

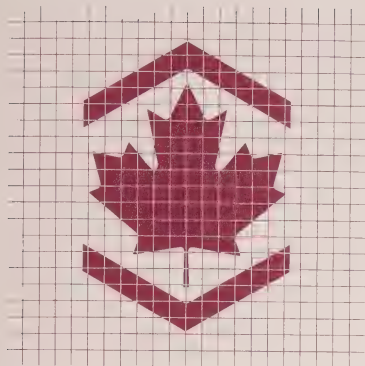
Expenditure includes costs for services provided without charge by government departments.

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan and contributions are charged to expenditure when paid.

Refunds of previous years' expenditure are recorded as revenue of the Government of Canada when received and are not deducted from the expenditure of the Council.

Parliamentary appropriation-Privy Council Vote 20

| | 1984 | 1983 |
|--|--------------|--------------|
| Appropriation available | \$ 7,477,000 | \$ 7,150,000 |
| Lapsed in accordance with Section 30 of the Financial Administration Act and Treasury Board Circular 1979-41 | 160,047 | 334,397 |
| Appropriation used | \$ 7,316,953 | \$ 6,815,603 |



Publications of the Economic Council of Canada, 1983-84

Annual Report, 1982-83
David W. Slater (EC1-1983E —
available free from the Economic
Council)

Council Reports

**Twentieth Annual Review: On the
Mend, 1983** (EC21-1/1983E; \$5.95
in Canada and \$7.15 in other
countries)

**The Bottom Line: Technology,
Trade, and Income Growth, 1983**
(EC22-113/1983E; \$8.95 in Canada
and \$10.75 in other countries)

Research Studies

**Canadian Productivity Growth: An
Alternative (Input-Output)
Analysis,**
H. H. Postner and L. Wesa, 1983
(EC22-115/1983E; \$6.95 in Canada
and \$8.35 in other countries)

Government Loan Subsidies,
S. Damus, 1984 (EC22-116/1984E;
\$5.95 in Canada and \$7.15 in other
countries)

**Marriage, Population, and the
Labour Force Participation of
Women,**
A. Breton, 1984 (EC22-117/1984E;
\$4.95 in Canada and \$5.95 in other
countries)

**Government Assistance to Export
Financing,**
*A. Raynauld, J.-M. Dufour, and D.
Racette*, 1984 (EC22-114/1983E;
\$7.95 in Canada and \$9.55 in other
countries)

Periodicals

**Au Courant, Vol. 4, Nos. 1, 2, 3,
and 4**
(available free from the Economic
Council)

Reprints

**Living Together: A Study of
Regional Disparities, 1977**
(EC22-54/1977E; \$7.50 in Canada
and \$9.00 in other countries)

**Responsible Regulation: An
Interim Report, 1979**
(EC22-70/1979E; \$7.25 in Canada
and \$8.70 in other countries)

**Twentieth Annual Review: On the
Mend, 1983** (EC21-1/1983E; \$5.95
in Canada and \$7.15 in other
countries)

**Minimum Wages: The New Issues
in Theory, Evidence, Policy and
Politics,**
E. G. West and M. McKee, 1980
(EC22-81/1980E; \$12.25 in Canada
and \$14.70 in other countries)

How to order

Both the Council reports and
research studies listed above are
available across Canada from
bookstores where government
publications are sold. (A list is
available from the Council on
request.) These publications can
also be ordered by mail from the
Canadian Government Publishing
Centre, Supply and Services
Canada, Ottawa, Canada, K1A 0S9.
(Please be sure to include a cheque
or money order made payable to
the Receiver General for Canada.)

For further information

If you would like further information
about the work or the publications
of the Economic Council, please
write to: Communications Division,
Economic Council of Canada, P.O.
Box 527, Ottawa, Ontario, K1P 5V6.

The Economic Council of Canada

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Annual Report



1984-85

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|----|---------------------------------------|
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Economic Council of Canada Conseil économique
du Canada

Chairman's Office Cabinet du président

June 30, 1985

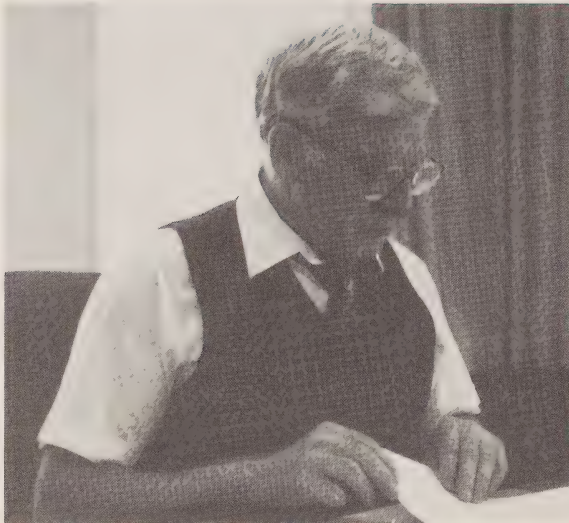
The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir

I have the honour to transmit the annual statement relating to the activities of the Economic Council of Canada for the fiscal year ending March 31, 1985, as required by the Economic Council of Canada Act.

Yours sincerely

David W. Slater
Chairman



The question of Canada's ability to compete internationally is fast becoming one of the major issues of the day. Some observers fear that this country is losing its international competitiveness, or not improving it enough, with dire consequences for Canadian living standards, employment, and the ability to pay for imported goods and services. Others, myself included, are more optimistic.

Concerns about our competitiveness are to some extent a reflection of our times. Rapid change, especially technological change, has thrust us into an uncertain international environment, has opened up new doors and closed old ones. Consequently, we need to develop new methods of allocating resources to improve both our international competitiveness and our standard of living. In many cases, these lessons can be learned within our own borders. I refer to the numerous, current success

stories of Canadian competitiveness that point the way to improved general economic performance and to better economic programs and policies.

Discussions about the loss or gain of international competitiveness can focus either on the country as a whole or on certain structural features of the economy that are thought to have special significance. With regard to the country as a whole, a loss (or gain) in competitiveness can result from a shift in demand for goods in which we have a comparative advantage; a shift in supply; changes in our resource base; fluctuations in the level of inflation; effects of exchange rates on the balance of payments; and so on. These forces in turn can be traced to other underlying causes, such as innovation, training, and tax structures. Lasting, as opposed to temporary, losses in competitiveness result when our basic resource endowments are damaged or when we lose ground in the international productivity growth sweepstakes. Slower-growing economies don't necessarily get into trouble in balancing trade or achieving full employment; they do, however, slip in the international-league tables of improvements in standards of living.

In this regard, some critics have alleged that Canada's resource endowment is being used up and also that our average productivity growth has been poor in comparison with that of other countries over the last decade. What, they ask, will replace Canada's declining resource income? And how can Canadian productivity growth everywhere (or at least in most sectors) be given a boost? Although personally I am not as alarmed as this group about our prospects, I readily recognize that these are issues that cannot easily be dismissed.

A second focus for those concerned about Canada's international competitiveness is the specific sectors, regions, and kinds of activities that are thought to be particularly important to Canada's growth. Manufacturing activities in general, and high-tech in particular, as well as services that enter into international commerce directly or as part of a package of traded goods and services, are singled out as areas in which Canada's international competitive position is weak or weakening, or not improving sufficiently to boost the Canadian economy. Some of these concerns are misguided and self-serving, but generally they reflect a genuine attempt to assess and promote Canadian international competitiveness in virtually every sector of the economy.

Fortunately, there are many success stories about Canadian international competitiveness that illustrate what *can* be accomplished in this country, and these provide us with some guidelines for success. Some of the most interesting examples my colleagues and I have encountered in recent years include: the successful development of manned and unmanned mini-submarine vehicles on both the west and east coasts; the development of world-class seismic capabilities in the oil and gas industry; the exportation from Canada of dry-land agricultural technology; the sales of Canadian computer-based management of financial institutions to the highly competitive U.S. markets; the exportation of Canadian-designed ground stations for satellite communication from firms in both western and eastern Canada; state-of-the-art clothing manufacturing facilities in both western and eastern Canada; the scale, design, and state-of-the-art manufacturing of jet engines in Canada; the multibillion dollar sales of

telecommunications equipment from Canada; the 4,000-employee research effort of Bell Northern Research, with approximately 3,000 of these personnel located in Canada; the more than 7,000 workers spread throughout hundreds of small and medium-sized businesses in one industrial park area in the Halifax-Dartmouth region; the CANADARM; the sale of computer software to Japan; and the exports of flight simulators.

What accounts for these successes? Can they be replicated or expanded? If so, how? Systematic work paralleling the research on growth, excellence, and industrial development that is being carried out in the United States will have to be done here in Canada before these questions can be answered. I would like, however, to offer some hypotheses and observations of my own.

First, although some successes emanate from large firms, many come from small and medium-sized businesses. Quite a few of these businesses are centres of entrepreneurship and innovation, and their overall contribution to improvements in productivity and competitiveness far outweighs their numbers.

Second, entrepreneurship is the distinguishing feature of all the successes. Third, infusions of capital are nearly always needed before firms can make a breakthrough from success on a small scale to success on a larger scale. Fourth, some of the successes come from firms where research and development is important, but R&D is neither a necessary nor sufficient condition for success. Fifth, successes are found in virtually every line of production of goods and services: some high-tech; some low-tech; some government, and many private, enterprises; and in all regions of the country. Sixth, there is

little correlation between government grants and tax breaks and these successes (or even the failures). Seventh, the evidence is overwhelming that our tax system creates major distortions in the use of savings and investment in Canada that hinder economic growth and efficiency. Tax reform may be one of the most important options that government has for improving the Canadian economy, as well as ensuring fairness and efficiency in revenue collection. These valuable real-life stories should give us a few hints on how to achieve better allocation of resources and more effective policies for economic growth.



David W. Slater

Chairman



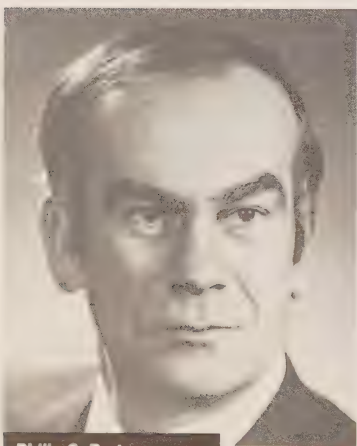
Peter M. Cornell

Director



Patrick Robert

Director



Philip C. Barter

Partner
Price Waterhouse and Co.
Vancouver



Roger O. Beauchemin

Senior Partner
Beauchemin-Beaton-Lapointe
Montreal



Diane Bellemare

Professor
Department of Economics
University of Quebec at Montreal
Montreal



Margaret Cornish-Kehoe

Manager
International Special Banking Services
The Bank of Nova Scotia
Toronto



Paul-Émilien Dalpé

Former Labour Leader
St-Jérôme (Quebec)



Yves Guérard

President
Sobeco Inc.
Montreal



Gordon L. Hill

Farmer
Varna (Ontario)



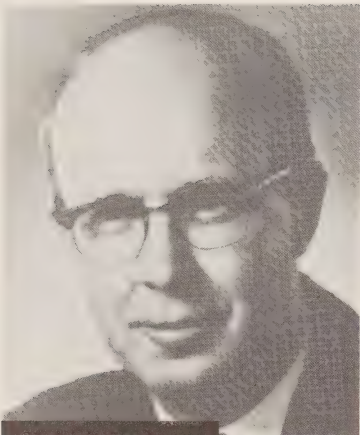
James F. Kay

Chairman
Dylex Limited
Toronto



Peter P. Podovnikoff

President
P.M.P. Holdings Limited
Richmond (British Columbia)



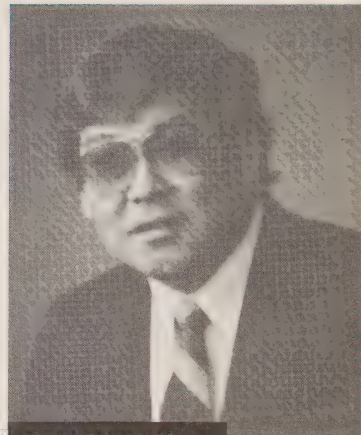
Alastair H. Ross

President
Allaro Resources Ltd.
Calgary



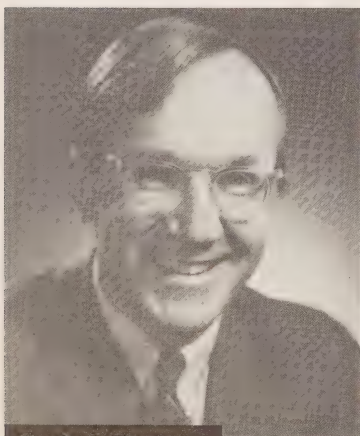
Gerald V. Schuler

Chief Executive Officer
Co-operative College of Canada
Saskatoon



Patrick Shimbashi

Farmer
Taber (Alberta)



Douglas P. Thomas

Vice-President
Toronto Investment Management Inc.
Toronto



J. Irving Zucker

President
Revest Financial Ltd.
Hamilton

Membership Changes

During the year ending March 31, 1985, several changes in membership took place.

The following member resigned:

Raymond Blais (February 6, 1985)

The terms of the following members expired:

G. Campbell Eaton (June 11, 1984)
Kalmen Kaplansky (June 22, 1984)
Shirley B. Goldenberg (July 23, 1984)
Donald H. McDougall (July 23, 1984)
Ralph G. M. Sultan (July 23, 1984)
Pierre Brien (December 10, 1984)
T. Earle Hickey (December 10, 1984)

The following member was reappointed:

Philip C. Barter (June 1, 1984)

The following new member was appointed:

Yves Guérard (June 21, 1984)

Prior to the presentation of this report, six new members were appointed (April 29, 1985):

Miller H. Ayre
Jalynn H. Bennett
James Andrew Coombs
Pierre Fortin
Kalmen Kaplansky
Susan A. Thompson

The principal goal of the Economic Council of Canada is to improve the economic prospects of Canadians across the country. Created in 1963 as an independent national research and advisory agency by an Act of Parliament, the Council's mandate is to "advise and recommend . . . how Canada can achieve the highest possible levels of employment and efficient production [in the medium and long term] in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards."

Under its Act, the Council is able to initiate research or undertake studies at the request of the government and to publish its findings. Some of the specific tasks set out in the Act include:

- the regular assessment of medium- and long-term economic prospects and potential, and the recommendation of government policies that should help to realize that potential;
- an appraisal of how national economic policies are helping to balance the economic development of all regions of the country;
- the study of how economic growth, technological change, and the international situation affect Canadian employment and income;
- the encouragement of maximum consultation and co-operation between labour and management; and
- regular consultation with provincial government agencies.

The Council's work is chiefly carried out in three ways — through research, advice, and information.

Original research is the foundation for the advice and recommendations that the Council offers on ways to ensure Canada's economic well-being. Most of the work focuses on specific rather than general subjects, with a view to the medium- and longer-term growth prospects.

Council Members are responsible for advisory and consultative initiatives. These are undertaken by the Chairman, two full-time Directors, and up to 25 appointed part-time Members. The Council meets four or five times a year to decide what advice and recommendations are to be put forward, most often in a major report.

Information is made available primarily through published documents, including the Annual Review and other Council reports reflecting the viewpoint of the Economic Council, as well as through Research Studies and Discussion Papers, which are the responsibility of individual authors. Conferences, workshops, media interviews, and the quarterly magazine *Au Courant* also enable the Council to stimulate public awareness and debate on economic issues.

Over the past 20 years, the Council has carried out research on activities ranging from egg pricing to international trade, from fishing operations in the Atlantic to logging on the Pacific Coast,

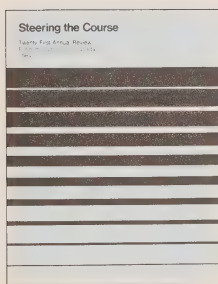
from the financing of housing to future labour market requirements.

One theme that has remained constant is the thorough examination of issues that affect Canadians in their daily lives. The goal has been to help achieve better standards of living for all Canadians by presenting Council findings for public discussion and government action.

Council Members usually determine which topics will be researched and analysed. (On occasion the Prime Minister refers subjects to the Council for study.) Work is then carried out by the various project groups, which are composed of professional staff with training in economics and experience in university, industry, or government. Consultants with specialized knowledge may be included in the project groups.

As a rule, projects end with the production of a major report representing the viewpoint of Council Members. (In addition, research findings can be published in the form of Studies and Discussion Papers, under the responsibility of the individual authors.) This year, two such reports were published, as well as the Council's Twenty-First Annual Review of the Canadian economy.

Twenty-First Annual Review: Steering the Course



In its Twenty-First Annual Review: *Steering the Course*, published in November 1984, the Economic Council singled out unemployment and the federal deficit as the two key problems that still confront Canada despite good economic growth in the preceding year. The Review examined these problems and some of the options available for dealing with them over the medium term.

In the course of its analysis, the Council devotes attention to the nature and evolution of federal, provincial, and local expenditures and revenues; issues respecting the size and management of the public debt; and the twin concerns

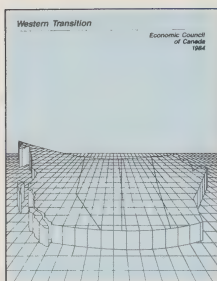
of rising unemployment and a growing federal deficit.

The Review concludes that it is possible to improve the employment situation and lower the federal deficit simultaneously; but as long as unemployment remains at excessively high levels, the emphasis should be on putting Canadians back to work. Deficit reduction should occur gradually, through a combination of spending cuts and revenue increases. Public initiative should be taken at both the federal and provincial levels to encourage skill retraining and job creation during this current period of rapid technological change.

Western Transition

The outlook for the economies of the four western provinces is discussed in the Council report, *Western Transition*, released in September 1984. The report concludes more than two years of research, consultation, and analysis on the part of the Regional Studies (Development) Group.

The chief question addressed by the report is whether the western provincial economies can grow at the same rate in the future as in the past, given an anticipated decline in the growth rate of the natural resource sector. Issues relating to each of the major resource sectors in the West are examined, including the problem of instability in the agricultural industry; the criteria used for determining the optimum rate of harvesting in the forestry industry; and the effective management of mineral resources, including oil and natural gas, potash, uranium, and coal. Also studied are issues relating to

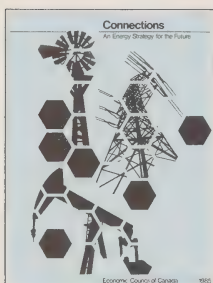


transportation, manufacturing, developments in the service industries, and agglomeration economies.

Overall, the Council believes that the prospects for improvements in western living standards are good, provided that a few important changes are made to current policies and practices. A slowdown in the contribution of natural resources to growth in living standards can be offset in part by productivity growth in the service sector and, to a lesser extent, by growth in the manufacturing sector. Several recommendations are made to the federal, provincial, and local governments regarding the kinds of changes required to improve the outlook for natural resources and to increase the contribution that service industries can make to growth.

formulation of energy policies in Canada. Problems and opportunities inherent in the supply of oil, natural gas, and electricity are then examined. The report emphasizes that the responsiveness of energy demand to price and income changes must be taken into account in energy policy. Some major economic opportunities for energy conservation and alternative energy sources are identified. The final chapter presents the Council's conclusions and recommendations, and includes some analysis of their anticipated economic impact.

Connections: An Energy Strategy for the Future



The Council's report on energy, entitled *Connections: An Energy Strategy for the Future*, was released in January 1985. It represents the culmination of over three years of intensive study in the energy field.

The report stresses that the primary concern for energy policy over the coming decade should be the efficient use of resources to achieve economic growth and development. The Council also concludes that other objectives, such as a greater consensus in energy policy, security of supply, increased Canadianization of the petroleum sector, and revenue sharing, can be pursued at the same time.

The report reviews the history of federal and provincial energy policy development and identifies the major issues that must be addressed in the

Twenty-Second Annual Review

The Council's Twenty-Second Annual Review of the economy, to be published in the autumn of 1985, will focus on Canada's economic performance and prospects. Analysts will consider ways to improve economic growth and productivity performance through improvement in workers' skills, the reallocation of both capital and labour, use of the tax structure (including its impact on risk taking), improvements in competitiveness, and the increased ability of firms to benefit from scale economies. Two areas will be examined in depth — namely, Canadian investment performance, and Canadian monetary policy.

In addition, the medium-term outlook and policy analysis will be developed, using a recently reconstructed version of the CANDIDE econometric model. Projections will include both a base case and a performance band, identifying the uncertainties that should be considered in any medium-run planning environment.

The Taxation of Capital Income

In recent years, there has been a significant change in views regarding the effects of taxation on resource allocation, economic growth, and income distribution. It is in the taxation of capital income that the most dramatic shifts in attitude have occurred.

The Council's study on the taxation of capital income is intended to aid policy makers as they contemplate reforms in the years ahead. Research will focus on several aspects of this subject. It will analyse the potential impact of present and alternative tax treatments of capital income on efficient resource allocation

and the distribution of income. Recommendations will be made on ways to improve the taxation of capital income and on the transitional measures needed to implement those recommendations. The study will also specify any additional changes in capital markets and related financial instruments that might be required.

Government Enterprises

The role and activities of government enterprises have become the subject of considerable discussion and controversy. The Government Enterprise Group is attempting to provide some much-needed understanding about government corporations as instruments of public policy.

The focus is on government-owned and -controlled entities (generally corporations) engaged in the production of marketable goods and services. Research studies are being undertaken to determine the impact of government ownership and control on various types of economic activity. Case studies will examine government ownership of provincial and municipal utilities, and government involvement in the transport, manufacturing, and resource sectors. More general studies are being carried out to determine the extent of government involvement in business and to probe the legal and institutional framework within which government corporations function.

The research is intended to provide a better understanding of the appropriate policy role of government enterprise and to develop recommendations for administrative and organizational changes that

will make government enterprise a more efficient instrument of public policy.

Labour Market Impacts of Technological Change

The project aims to examine patterns of growth and change in employment, output, and labour requirements in various sectors of the economy, with particular emphasis on the relative performance of the high-tech sectors and their employment consequences. Past trends and future prospects for income distribution will be analysed in the light of shifts in the occupational structure resulting from technological change.

The input-output structure of the Canadian economy will be used to project the possible employment effects of technological change in various industries and occupations. These will be based upon a variety of assumptions about future levels of economic activity, and the pace and nature of technological change. The study will also include a survey of Canadian organizations in order to assess institutional adaptations to technological change. This survey will examine trends and prospects in labour-management relations, patterns of working time, compensation policy, education, training, and the quality of working life.

The implications of technological change for the employment opportunities of women will be examined, from the perspective of such issues as the effect of sectoral and occupational shifts on access to employment and the nature of work, and the outlook for the future. The special work-related problems of youth, the aged, and the handicapped

in an era of rapid change will also be studied.

Finally, the study will make recommendations for policies on education, the worker training and mobility required by the adjustment process, the institutional adaptations accompanying technological change, and the social measures required to distribute equitably its benefits and costs.

Explorations

The Explorations group, re-established this year, has undertaken preliminary investigations in several areas, including the economics of environmental protection, health care with limited resources, and adjustments to trade liberalization.

A Colloquium is being planned on the interrelationship between the environment and the economy. Among the major issues to be addressed will be the impact of pollution on the economic resource base, the effects of protective policies and programs on economic performance, the benefits of a viable resource base for long-term economic growth, and alternative and more effective strategies for conservation of the resource base and improved economic development. A second Colloquium has been planned to discuss health care issues. It will estimate the demand for health care services arising from the aging of Canada's population, project future health expenditures, explore the potential of new medical technologies and alternative modes of service delivery, and examine expenditure limits and potential measures of cost control.

As well, a joint project with the Royal Commission on the Economic Union

and Development Prospects for Canada is investigating Canada/U.S. productivity differences in the manufacturing sector, with particular attention being given to the role of scale economies and the openness of the Canadian economy.

In addition, the group participated in the early developmental stage of a Council project on the adjustment and adaptation of the Canadian economy to forces arising from increasing trade liberalization and foreign competition.

Consultative and advisory activities have continued to be of central importance in the effective use of Council Members' time. As in past years, these activities have been closely tied to the various functions of the Council, including its research, managerial, consensus-formation, policy-advisory, and public education roles. More and more, however, with the increasing complexity of issues and the growing number of interest groups involved in public policy debates, these activities have focused on the need to consult a wider variety of experts and the need to carry the Council's message to a larger, more informed audience.

Given the broad mandate of the Council, the twenty-five part-time and three full-time members are kept extremely busy in their efforts to advise, and consult with, various interest groups across Canada. These activities are required for a number of reasons. First and foremost are the initiatives associated with the research program. Since Council Members collectively set the research and analysis agenda, they may be called upon to serve on the various subcommittees of the Council. These subcommittees meet periodically to advise the Council's research groups on their work plans and on certain technical questions. In addition, subcommittees may invite representatives or experts from outside groups to offer their comments and suggestions.

Recently, more intensive consultation efforts have been undertaken, especially during the earlier phases of research projects. For example, *Western Transition*, the Council's study of Canada's western economies, was developed through a significant increase in consultations with western opinion leaders and experts, at

both the preliminary planning stages and throughout the research process. To assist in this effort, the Council opened an office in Edmonton under the direction of a senior economist for the duration of the project. This enabled the Council to maintain systematic and regular contact with individuals in western governments, universities, businesses, and other organizations. Following publication of the report, the Chairman undertook to meet with provincial premiers, business leaders, and labour representatives in the various provinces to receive their reactions and comments. The input from these different sources contributed greatly to the value of the study and to the level of interest that was generated following the release of the report. A conference to discuss the outlook for the western Canadian economy in the context of this report was sponsored by the University of Alberta in November 1984, and it attracted a good deal of attention from academics, business, governments, and the media.

A similar effort to consult with experts was carried out during the formulation of the work plan for *Connections: An Energy Strategy for the Future*. The comprehensive scope of this project required Council researchers to analyse the electricity, oil, and gas industries and to look at complex interrelationships within the energy sector. Much of the research phase of the project was spent gathering information and data from individuals in these fields. Indeed, without their input, it would have been difficult to complete much of the work of the project.

The strong interest generated by the energy report has led to a number of special briefings both within the government and with various interest groups

across the country. In this context, the University of Calgary sponsored a conference at the end of January 1984 that focused on the report. Well over 300 participants from federal and provincial governments and their agencies, the petroleum industry, the electric utilities, the alternative energy and conservation sectors, and the universities gathered to put forward their comments and criticisms. The papers presented at both this and the *Western Transition* conference will be published in an upcoming special issue of *Canadian Public Policy*.

Briefings related to this report include those made to the Standing Senate Committee on Energy and Natural Resources; the National Energy Board; Energy, Mines and Resources Canada; the Department of Finance; and the Ministry of State for Forestry. The Chairman and Directors have made speeches to groups ranging from the Nova Scotia Offshore Trade Association to the Economics Society of Alberta. Requests for speeches continue to flow in, and consultation efforts will undoubtedly carry over into next year.

An equally important event that shaped the consultative and advisory activities of Council Members this past year was the release of *Steering the Course*, the Council's Annual Review of medium- and long-term prospects for the economy. A summary of the Review was released at the end of October to provide government, industry, and labour leaders, as well as the Canadian public at large, with a clear indication of the Council's thinking about Canada's economic problems and priorities. This publication proved to be particularly timely, as the Government of Canada was preparing to open the Thirty-Third Session of Parliament. The Council

received many favourable comments on the usefulness of this summary, especially as federal and provincial First Ministers met to develop their agendas for the federal-provincial conference on economic priorities. The Council's appearance before the House of Commons Standing Committee on Finance, Trade and Economic Affairs gave it an opportunity to expand on special items of interest in the Review.

Research projects currently under way have given rise to a number of new consultative and advisory activities. Of special note are a number of seminars and briefings on issues relating to taxation and advanced technology. A highlight for many Council Members was a special presentation and tour by Pratt and Whitney Canada, to exhibit their production facilities and to examine the impact of new technology on several practical industrial applications.

Other noteworthy advisory and consultative efforts marking this year's activities have been: the second submission to the Royal Commission on the Economic Union and Development Prospects for Canada; a presentation to the Commission québécoise sur la capitalisation des entreprises; responses to various discussion papers released by the federal and provincial governments; publication of the proceedings of two important colloquia, including one on Government Enterprise and another on the Economic Status of Women in the Labour Market; a feasibility study on service sector developments; assistance to the Task Force on Program Review; and numerous presentations and briefings to visiting delegations from around the world.

Information is crucial to any meaningful debate on economic issues and policy options. In recent years, the Council has placed increasing emphasis on this aspect of its mandate, through a variety of initiatives:

- Council reports and studies are published in both official languages and are made available to the general public by mail order and in bookstores across the country. Noticeably wider distribution of these publications is one sign of the public's growing awareness of the importance of economic issues; another is the increasing number of requests for information on Council research and activities. In response to this demand, the Council's Information Division is presently establishing an "information bank" to provide fast answers to questions on topics researched by the Council since its creation.
- The Chairman and two full-time Directors promote Council reports and recommendations through speeches and meetings with representatives from both the public and private sectors. In addition, the Council's media and public relations specialists are in constant contact with colleagues and institutions across the country, in order to draw attention to the Council as a source of up-to-date information on economic issues.
- The Council's quarterly magazine, *Au Courant*, provides articles on Council research and activities in a journalistic, non-technical style. It is distributed free of charge, in both official languages, to a varied audience of over 40,000 readers.
- The Council holds seminars on a variety of research-related topics at regular intervals. In addition it

periodically sponsors, or is a contributor to, conferences bearing on its research expertise. This past year, the Council participated in major conferences on issues relating to energy and the West (described earlier) and was host at both a Symposium and a Colloquium (details follow).

Symposium on Government Enterprises

In September 1984, the Economic Council held a one-and-a-half day Symposium in Ottawa, entitled *Government Enterprise: Roles and Rationale*. The Symposium was organized by the Council's Government Enterprise Group and was intended to supplement the Council's ongoing research in this area. Ten papers were commissioned for the Symposium, and some 50 individuals from different backgrounds and with different perspectives were brought together to discuss the papers and to reflect generally upon the *raison d'être* of public corporations. The papers examined the circumstances leading to the establishment of government corporations; explored the potential of government enterprise as an instrument of public policy; and attempted to probe the activities and behaviour of public corporations. Papers presented at the Symposium are available as a single publication (to order, see publication details at the end of this Report).

Colloquium on the Economic Status of Women in the Labour Market

As part of its research on the current economic status of women in the labour

market, the Council held a Colloquium in Montreal on November 26-28, 1984. Some 100 specialists from across the country gathered to discuss such issues as daycare, parental leave, occupational diversification, education, equal-pay policy, and the impact of technological change on female workers.

The papers presented over the three-day period were combined into one publication entitled *Towards Equity: Proceedings of a Colloquium on the Economic Status of Women in the Labour Market, November 1984* (to order, see publication details at the end of this Report). Also included in that publication are summaries of the lively floor discussions that followed each presentation, as well as the after-dinner address given by Judge Rosalie Abella, Chairman of the Ontario Labour Relations Board and Past Commissioner of the Commission of Inquiry on Equality in Employment.

General Administration

The General Administration Group provides four principal types of service — administrative, personnel, financial, and library — all designed to support the work of the research and other service groups. While each of these groups has control over the resources required to fulfil its responsibility, the overall financial, personnel, property, and records administration rests with General Administration.

General Administration is required to ensure that the Council's administrative procedures comply with government regulations and directives; to provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources; and to develop overall plans and strategies with respect to the expected output performance and resource input requirements over the short-to-medium term. In each of these specified tasks, General Administration requires information from other groups, together with direction and final approval from the Council's senior management.

The Council Library has close ties with the research staff. Established shortly after the Council's creation, it contains some 30,000 books, documents, reference works, and periodicals relating to economics, finance, social sciences, and statistics. The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council. It is also a depository library for federal government publications.

Under conditions of the new legislation pertaining to freedom of information, the Library and other service units of the General Administration Group provide public access to Council material.

Data Processing

The Data Processing Group is responsible for data acquisition and manipulation, scientific and administrative programming, and computing services in support of Council research groups.

Computing services continue to be provided by the private sector service bureau industry, supplemented with personal computers. With professional statistical and data manipulation software now available for these personal computers, the in-house "economists' workstation" is becoming a reality. Such technology is being used effectively by the Taxation Group and other groups for simple modeling and statistical analysis.

Fiscal year 1985-86 will see the introduction, on a small scale, of office automation technology to support the administration of the Chairman's office.

Chairman

David W. Slater

Council Directors

Peter M. Cornell

Patrick Robert

Council Secretary

W. E. Haviland

Group Directors

Twenty-First Annual Review

R. A. Jenness

CANDIDE and

Twenty-Second Annual Review

R. S. Preston

Regional Development

N. M. Swan

Energy Issues

R. C. Zuker

Government Enterprises

R. Hirshhorn

The Taxation of Capital Income

D. O. Sewell

Labour Market

K. Newton

Explorations

R. A. Jenness

Information

J. Fortin

General Administration

D. M. Paproski

Data Processing

R. Goguen



AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and
The Right Honourable Martin Brian Mulroney, P.C., M.P.
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1985. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditure and revenue of the Council for the year ended March 31, 1985, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, appearing to read "Kenneth M. Dye".

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 4, 1985

Statement of Operations
for the year ended March 31, 1985

| Expenditure | 1985 | 1984 |
|---|---------------------|---------------------|
| Operations | | |
| Salaries and employee benefits | \$ 5,217,318 | \$ 5,049,906 |
| Professional and special services | 930,346 | 1,097,466 |
| Accommodation | 684,880 | 504,000 |
| Publicity, publication of reports and studies | 368,104 | 247,453 |
| Communications | 215,509 | 226,626 |
| Office stationery and supplies | 163,770 | 156,632 |
| Travel and removal | 122,442 | 136,815 |
| Office furniture and equipment | 105,638 | 53,411 |
| Renovations | 44,349 | 28,036 |
| Rental of equipment | 43,070 | 50,854 |
| Repair of office furniture and equipment | 40,191 | 37,236 |
| Employee termination benefits | 27,097 | 7,691 |
| Miscellaneous | 13,136 | 1,510 |
| | <u>7,975,850</u> | <u>7,597,636</u> |
| Administration | | |
| Salaries and employee benefits | 623,869 | 591,711 |
| Executive Council members | 253,472 | 229,648 |
| Professional and special services | 150,648 | 175,958 |
| Travel | 63,880 | 79,000 |
| | <u>1,091,869</u> | <u>1,076,317</u> |
| | <u>9,067,719</u> | <u>8,673,953</u> |
| Revenue | | |
| Refund of previous years' expenditure | 328 | 1,760 |
| Net cost of operations | \$ 9,067,391 | \$ 8,672,193 |
| Reconciliation to use of appropriations: | | |
| Net cost of operations | \$ 9,067,391 | \$ 8,672,193 |
| Add: revenue credited to non-tax revenue | 328 | 1,760 |
| Less: services provided without charge by Government departments | 812,724 | 610,000 |
| Use of appropriations | \$ 8,254,995 | \$ 8,063,953 |

The accompanying notes are an integral part of this statement.

Approved by the Council:

David W. Slater

Chairman

Roman S. L.

Director

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(d) Refund of previous years' expenditure

Refund of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Changes in financial statement presentation

The financial statement presentation has been revised in accordance with the directive issued by the Receiver General for Canada.

Revenue, refund of previous years' expenditure, \$328 (1985) and \$1,760 (1984) are now shown on the Statement of Operations.

4. Parliamentary appropriations

| | 1985 | 1984 |
|---|---------------------|---------------------|
| Privy Council | | |
| Vote 20 | \$ 7,645,000 | \$ 7,477,000 |
| Lapsed | 197,005 | 160,047 |
| | <u>7,447,995</u> | <u>7,316,953</u> |
| Statutory contributions to employee benefit plans | 807,000 | 747,000 |
| Total use of appropriations | <u>\$ 8,254,995</u> | <u>\$ 8,063,953</u> |

5. Reclassification of previous year figures

For comparative purposes, the 1984 figures have been reclassified to conform with the 1985 presentation.

Annual Report, 1983-84

David W. Slater (EC1-1984E — available free from the Economic Council)

Other Council Reports

Twenty-First Annual Review: *Steering the Course*, 1984 (EC21-1/1984E; \$5.95 in Canada and \$7.15 in other countries)

Western Transition, 1984 (EC22-123/1984E; \$9.95 in Canada and \$11.95 in other countries)

Connections: An Energy Strategy for the Future, 1985 (EC22-124/1985E; \$9.95 in Canada and \$11.95 in other countries)

Research Studies

Financial Risk, Rate of Return of Canadian Firms, and Implications for Government Intervention

Jean-Marie Gagnon and Benoît Papillon, 1984 (EC22-118/1984E; \$8.95 in Canada and \$10.75 in other countries)

The Adoption of Computer Technology by Insurance Companies

Steven Globberman, 1984 (EC22-119/1984E; \$4.95 in Canada and \$5.95 in other countries)

The Changing Economic Status of Women

Jac-André Boulet and Laval Lavallée, 1984 (EC22-122/1984E; \$6.95 in Canada and \$8.35 in other countries)

Blue Gold: Hydro-Electric Rent in Canada

Richard C. Zuker and Glenn P. Jenkins, 1984 (EC22-120/1984E; \$5.95 in Canada and \$7.15 in other countries)

The Subsidization of Innovation Projects by the Government of Canada

Abraham Tarasofsky, 1984 (EC22-121/1984E; \$7.95 in Canada and \$9.55 in other countries)

Unemployment, Employment, and Non-Participation in Canadian Labour Markets

Abrar Hasan and Patrice de Broucker, 1985 (EC22-125/1985E; \$8.95 in Canada and \$10.75 in other countries)

Conference Proceedings

Towards Equity: Proceedings of a Colloquium on the Economic Status of Women in the Labour Market, November 1984

(EC22-126/1985E; \$9.95 in Canada and \$11.95 in other countries)

Government Enterprise: Roles and Rationale

Texts Presented at a Symposium Held in Ottawa, September 1984 (available free from the Economic Council)

Periodicals

Au Courant, vol. 5, nos. 1, 2, 3, and 4 (available free from the Economic Council)

Reprints

Canadian Television Broadcasting: Structure, Performance and Regulation

Robert E. Babe, 1979 (EC22-63/1979; \$5.00 in Canada and \$6.00 in other countries)

Government Loan Subsidies

S. Damus, 1984 (EC22-116/1984E; \$5.95 in Canada and \$7.15 in other countries)

Economic Intervention and Regulation in Canadian Agriculture

J. D. Forbes, R. D. Hughes, and T. K. Warley, 1982 (EC22-102/1982E; \$7.95 in Canada and \$9.55 in other countries)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Information Division, Economic Council of Canada, P.O. Box 527, Ottawa, Ontario, K1P 5V6.

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Economic Council of Canada

Annual Report
1985-86



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Economic Council of Canada Conseil économique
du Canada

Chairman's Office Cabinet du président

June 30, 1986

The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1986, as required by the Economic Council of Canada Act.

Yours sincerely,

Judith Maxwell
Chairman

A message from the Chairman

The global economy is undergoing a transformation that will profoundly affect the environment for decision making in Canada's public and private sectors. Three changes are fundamental: the decline in the rate of inflation; the globalization of economic activity; and the intensification of competition.

Disinflation

The trend in prices has shifted dramatically in recent years. Inflation in the OECD countries dropped from a high of 13 per cent in 1980 to 4.5 per cent in 1985. The prices of oil, minerals, agricultural products, and other commodities have actually declined. Most others have stabilized.

There is every sign that price increases in the industrialized world will continue to be moderate for at least a few years. Excess supply in the resource industries, investment in new technologies, and new attitudes in collective bargaining will all work in favour of low inflation.

The new trend in prices should help prolong the global economic recovery. Lower inflation opens the doors for a reduction in interest rates and for increases in spending and investment. Under those conditions, Canada looks forward to a relatively long period of healthy growth.

At the same time, the realignment of prices is creating major disturbances in many sectors and regions of the world. Resource industries are struggling. Oil-exporting nations are losing revenue that is needed to pay interest on their foreign debt. And financial institutions are forced to re-evaluate their portfolios, as the

earnings and assets of some of their major clients are drawn down. In Canada, lower oil prices are causing severe imbalances in the regional patterns of growth: the prospects for investment are very favourable in Ontario but less so in Alberta and Saskatchewan, where resources represent a larger part of total economic activity.

The situation calls for careful management on the part of both government and industry in order to ensure that the problems created by price fluctuations in the resource industries do not wipe out the benefits of lower inflation for the economy as a whole.

Globalization

More and more businesses are searching around the world for the best place to buy parts, manufacture products, or borrow funds. The trend is altering the patterns of trade and increasing the degree of interdependence among the economies of the industrialized and developing worlds.

As a consequence, there is growing pressure on the nations of the world to harmonize their monetary, fiscal, and structural policies in order to avoid serious disruptions in their trade and financial flows. Progress in that direction is sometimes slow. But there were encouraging signs in 1985, including steps by the G-5 countries (United States, Japan, United Kingdom, France, and West Germany) to achieve more balanced economic growth and to help lower the value of the U.S. dollar. In the months and years ahead, industrialized and developing countries will need to work in concert to improve the glo-

bal prospects for trade and to develop a realistic solution to the international debt crisis.

From time to time, the trend towards global economic integration suffers a setback: tariffs are imposed by one country; so-called "voluntary import restraints" are demanded by another. But that is the exception rather than the rule. Advances in technology, communications, and transportation, together with the relentless pressure put on the economies of the globe to exploit new sources of growth, ensure that the trend is irresistible and inevitable. Barring exceptional circumstances, a nation cannot shield itself from the outside world without the risk of seriously penalizing its economic potential.

Competition

Enhanced ties among the economies of the world are only one of the factors contributing to more intense competition in international and domestic markets. There are at least three others.

First, technological change is making it harder for producers to preserve and enhance their market shares. Not only is the pace of technological innovation accelerating, but technical know-how is spreading more rapidly to producers around the world. Hence there is constant pressure on producers to develop new products and ideas, to cut costs, and to raise productivity. Businesses that fail to do so inevitably end up struggling for survival.

Second, governments worldwide are stimulating competition through institutional changes in a range of key industries. Steps include deregulation

lation and the privatization of government-owned enterprises. As change takes place in one country, there are spillover effects in others. For instance, U.S. policy towards deregulation of airlines is having considerable impact on the Canadian market. Similarly, the decision by the United Kingdom to privatize British Telecom is affecting the communications industry on a global scale.

Finally, structural shifts in supply and demand are breaking up monopolies, cartels, and commodity agreements. The most vivid example is OPEC's loss of power in the international oil market. Oil is now being traded on competitive terms. Supply and demand are dictating prices – not OPEC, or the oil industry.

How is Canada reacting to these changes in the global marketplace? Better than most people would give it credit for, although a lot remains to be done.

The Private Sector Response

Canada's private sector is taking a more positive attitude towards its new environment than we could have anticipated only a few years ago.

Most business groups are in favour of enhancing trade ties with the United States and other nations. The Canadian Chamber of Commerce, the Business Council on National Issues, and the Canadian Manufacturers' Association are all encouraging steps in that direction. That is quite a change from some years ago, when calls for freer trade with the United States raised a great deal of suspicion among the business community.

More importantly, the private sector is starting to gear up for the new competition. Investments are being undertaken to rationalize operations and improve productivity. This is particularly evident in such sectors as metal mining, where it has become imperative to lower break-even costs in the face of tumbling prices and enhanced competition.

Canadian industry is also specializing. Evidence of this shows up in the patterns of trade. In 1970, Canada's exports and imports were equivalent to about 20 per cent and 16 per cent, respectively, of the country's GNP. In 1985, those proportions were 26 per cent and 22 per cent. Moreover, recent research shows a significant rise in intra-industry trade – the buying and selling of goods and services among firms in the same industry. That is a sign that individual firms are specializing in a narrower range of products to develop and preserve their competitive edge.

As change takes place, most firms adjust their operations. Some do have to close shop, but they are replaced by new firms that tend to adopt new ideas and new technologies rapidly. While adjustment is sometimes difficult, the net impact on output and employment is positive. For every worker displaced by structural change and technological adaptation in the 1970s, four found jobs as a result of growth in income, consumption, and investment.

Canadian workers are also demonstrating a great deal of mobility and flexibility as they adjust to new economic conditions.

Few Canadians realize how much change goes on in the course of one year. One measure of the scope of

adaptation is the movement of people among provinces. Every year, about 400,000 people in Canada – or 1.5 per cent of the population – migrate from one province to another, largely in response to regional differences in the patterns of economic growth. There is also a good deal of worker mobility among industries and firms. Training programs, together with greater portability of pension benefits, should further stimulate such movements and lead to a better matching of jobs and skills.

The new attitudes of business and labour are showing up in the different approaches they are adopting in the organization of the workplace. There are many successful examples of workers and managers getting together to implement new technology, while enhancing the human side of the enterprise. Participative management and profit sharing are also more prevalent. Moreover, wage settlements are in line with the current low rate of inflation. In 1985, the average annual increase in major settlements was under 4 per cent.

There is still a good deal of apprehension among many firms and workers vis-à-vis technology and trade, and their impact on domestic markets. Those concerns are not unfounded. But the evidence suggests that change is both necessary and inevitable. Our concern should be with minimizing the cost of adjustment and ensuring that it is distributed fairly among individuals and groups. Indeed, that is one of the guiding themes of the research programs being undertaken by the Economic Council of Canada.

Members of the Economic Council of Canada

Judith Maxwell
Chairman

Peter M. Cornell
Director

Patrick Robert
Director

Miller H. Ayre
Ayre's Limited
St. John's

Philip C. Barter
Price Waterhouse and Co.
Vancouver

Roger O. Beauchemin
Beauchemin-Beaton-Lapointe
Montreal

Diane Bellemare
Department of Economics
University of Quebec at Montreal
Montreal

Jalynn Bennett
The Manufacturers Life Insurance
Company
Toronto

Martin I. Chernin
Pearl Realty Company Limited
Sydney

Dian Cohen
Cohen Couture Associates
Montreal

James R. Coombs
SaskTel
Regina

Margaret Cornish-Kehoe
The Bank of Nova Scotia
Toronto

Pierre Fortin
Department of Economics
Laval University
Quebec City

Yves Guérard
Sobeco Inc.
Montreal

Gordon I. Hill
Ontario Bean Producers' Marketing
Board
London

Kalmen Kaplansky
Human Rights Centre
University of Ottawa
Ottawa

James F. Kay
Dylex Limited
Toronto

George A. Key
Summerside, P.E.I.

Constantine Passaris
Professor of Economics
University of New Brunswick
Fredericton

Peter P. Podovnikoff
P.M.P. Holdings Limited
Richmond, B.C.

Alastair Ross
Allaro Resources Ltd.
Calgary

Patrick Shimbashi
Diamond-S Produce Ltd.
Taber, Alta.

Susan A. Thompson
The Birt Saddlery Co. (1980) Ltd.
Winnipeg

Membership changes

During the year ending March 31, 1986, several changes in membership took place.

The following members resigned:

David W. Slater, Chairman (October 31, 1985)

Patrick Robert, Director (March 26, 1986)

The terms of the following members expired:

Paul-Émilien Dalpé (October 26, 1985)

Gerald V. Schuler (October 26, 1985)

Douglas P. Thomas (October 26, 1985)

J. Irving Zucker (October 26, 1985)

The following member was reappointed:

Kalmen Kaplansky (June 22, 1985)

The following new members were appointed:

Judith Maxwell, Chairman (November 1, 1985)

Miller H. Ayre (April 29, 1985)

Jalynn H. Bennett (April 29, 1985)

James A. Coombs (April 29, 1985)

Pierre Fortin (April 29, 1985)

Susan A. Thompson (April 29, 1985)

Dian Cohen (July 4, 1985)

George A. Key (July 4, 1985)

Martin I. Chernin (September 26, 1985)

Constantine Passaris (March 27, 1986)

David Slater retired in October 1985, after serving five years as Chairman of the Economic Council. Prior to that appointment, Dr. Slater was acting Chairman (1979-80) and Council director (1978-79). Under his direction, the Council published major reports on the Newfoundland economy; regulation; fiscal federalism; financial markets; technology, trade, and income growth; the Western Canadian economy; and energy.

The Economic Council of Canada

The Economic Council of Canada has three unique qualities: it focuses on medium- and long-term economic research; it issues consensus reports on that research; and it is independent. Created by an Act of Parliament in 1963 to carry out economic research and to provide policy advice, the Council's mandate is to "advise and recommend . . . how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards."

The Council "Board" includes a full-time Chairman, two full-time directors and up to 25 other members representing all regions and sectors of the economy. All are appointed by the federal government. Council members meet four or five times a year to discuss research projects. In deciding what policies to recommend, they attempt to reach a consensus on major Council statements, but individual members may also express their dissent or observations as they see fit. As well, Council members participate with outside experts on Advisory Committees that oversee the activities of the research groups on their projects.

Role

The Economic Council of Canada will have a special role to play in the challenging economic and political environment of the 1980s and 1990s. Its capacity for in-depth research on

medium- to long-term issues will be required to help Canadians think through the implications of this environment for the development of economic and social policies. Its independence will enable the Council to stand back from the issues in order to make an objective appraisal of the options open to policy makers in a particular problem area. And, finally, its consensus function, blending the views of its diverse group of members, gives the Council a unique capacity to define the common ground, at a time when Canadians are besieged by opinions from a conflicting array of interest groups. In short, the Council will seek to play a major role in the formation of a national consensus on economic policy, in the belief that achieving broad understanding of key issues is of primary importance if Canadians are to continue to achieve rising standards of living in the years ahead.

Output

The Council's work includes the assessment of medium- and long-term economic prospects for Canada, and the recommendation of government policies to fulfil that potential; an appraisal of how national economic policies are contributing to the development of Canada's regions; and an analysis of how economic growth, technological change, and the international

situation affect Canadian employment and income.

It carries out this work in three principal ways – through research, advice, and information.

Research – Original research is the foundation for the advice and recommendations that the Council offers on ways to ensure Canada's economic well-being. Most research projects focus on specific rather than general subjects, with a view to the medium- and long-term growth prospects. Council projects currently under way are discussed on page 8.

Advice – The advisory and consultative responsibilities of the Council are carried out by the Chairman, the two Directors, and the other Board members. Their activities during 1985/86 are outlined on page 12.

Information – One of the Council's prime goals is to inform Canadians about its research findings and to encourage public discussion of economic issues. That involves publishing reports and a quarterly magazine, holding conferences and seminars, arranging media interviews, and giving speeches. The year's activities in this regard are discussed on page 14.

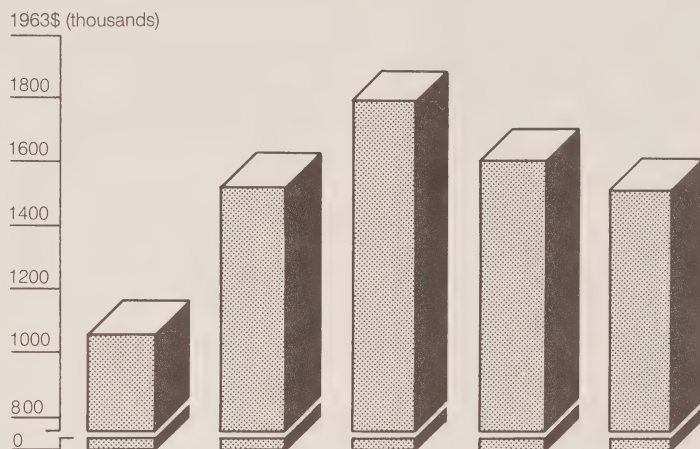
Resources used

The growing pressure for fiscal restraint in the federal government in the 1980s has reduced the real resources available to the Council. Total expenditures on the ongoing program for 1985/86 amounted to approximately \$8.5 million. However, as the accompanying charts show, average real expenditures over the past five fiscal years (after adjustment for the effect of infla-

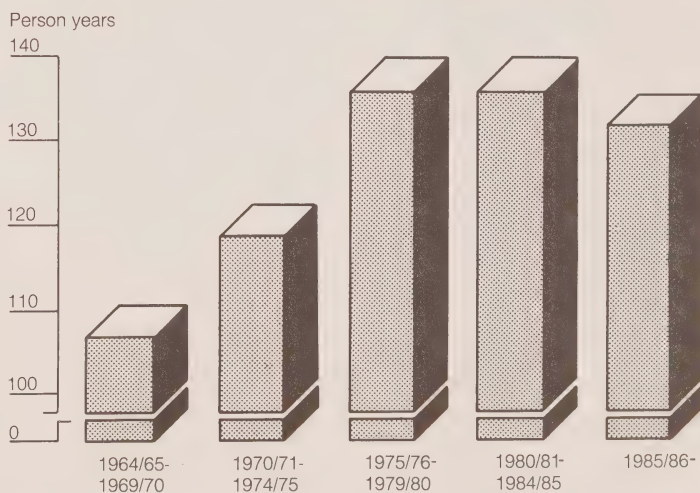
tion) were 4 per cent lower than the average of the previous five fiscal years. Council staff was reduced to 132 employees by the end of fiscal year 1985/86. A further reduction, to 128 employees, will be required at the beginning of fiscal year 1986/87. That level is 7 per cent below the average for the years 1976/77 to 1980/81.

In response, the Council intends to be more cost-effective in the use of its resources and to make fuller use of rapidly advancing technology. It will also draw upon the special talents of part-time Council members and other public-minded experts whose counsel is given without remuneration.

Change in actual expenditures, 1964/65-1985/86



Change in person-years, 1964/65-1985/86



Research activities

Council members determine which topics will be researched and analysed, although on occasion the Prime Minister refers subjects to the Council for study. Work is then carried out by the various project groups, which are composed of professional staff with training in economics and experience in applied research. Consultants with specialized knowledge may be included in the project groups.

As a rule, projects end with the production of a major report representing the viewpoint of Council members. (In addition, research findings can be published in the form of studies and discussion papers, under the responsibility of the individual authors.) This year, the Council published its Twenty-Second Annual Review of the Canadian economy.

Twenty-Second Annual Review: Strengthening Growth

Investment spending, productivity growth, and Canada's monetary policy will require special attention over the next few years, the Economic Council concluded in its Twenty-Second Annual Review of the economy, *Strengthening Growth: Options and Constraints*.

The Review found that a better understanding of these three key areas, along with continued vigilance over the government deficit

issue, should make it easier for Canadians to choose the most effective means of strengthening growth and reducing unemployment over the medium term.

In the course of its analysis, the Council examined the reasons behind the slowdown in productivity growth and investment spending, and the impact of changes in Canada's current monetary policy. It outlined some of the options for

Strengthening the bases for growth and job creation should be Canada's first priority.

dealing with these issues over the next few years.

The Review suggested that positive results for the Canadian economy could be achieved by combining trade expansion within the GATT (General Agreement on Tariffs and Trade) framework with a looser monetary and tighter fiscal policy, and more deficit-reducing activity than in the past. It concluded that Canada now appears to be in a position to achieve more sustained and broadly based improvement in the growth of real income than it experienced over the last decade.

Ongoing research

Twenty-Third Annual Review

The Council's Twenty-Third Annual Review of the Canadian economy, to be published in the fall of 1986, will examine some of the important structural changes presently taking place, both domestically and internationally, that will influence Canada's long-term economic performance. These include the actual and potential widening of international markets and the competitive opportunities thereby created; certain fundamental changes in demographic patterns; and structural adjustment in agriculture.

As well, the medium-term outlook and policy simulations will be developed, using the Council's CANDIDE econometric model. Projections will include both a base case and a performance band, identifying the uncertainties that should be considered in any medium-run planning environment.

Government Enterprises

The role and activities of government enterprises have become the subject of considerable discussion and controversy. The Government Enterprises Group is attempting to provide some much-needed understanding about government corporations as instruments of public policy.

The focus is on government-owned and -controlled entities (generally corporations) engaged in the

production of marketable goods and services. Research studies have been undertaken to determine the impact of government ownership and control on various types of economic activity. Case studies have examined government ownership of provincial and municipal utilities, and government involvement in the transport, manufacturing, and resource sectors. More general studies have been carried out to determine the extent of government involvement in business and to probe the legal and institutional framework within which government corporations function.

The research is intended to provide a better understanding of the appropriate policy role of government enterprise and to develop recommendations for administrative and organizational changes that will make government enterprise a more efficient instrument of public policy.

Financial Institutions

The financial sector has undergone some dramatic changes in recent years. Unregulated financial holding companies have emerged, and new financial practices and instruments have been developed. In the process, some institutions have encountered serious financial difficulties.

A number of government and private sector studies of such institutions have already been undertaken. The Council's project will add to the debate by providing a framework within which the key issues can be assessed. It will also review the recommendations that have been made to date and contribute some suggestions of its own.

The project will examine the structure and regulation of financial institutions, focusing on the trade-offs between major policy goals (such as competition and solvency) that governments have to consider in revising financial legislation. It will also consider ways to improve the efficiency with which financial services are provided to Canadians.

The Taxation of Capital Income

In recent years, there has been a significant change in views on the effects of taxation on resource allocation, economic growth, and income distribution. It is in the taxation of capital income that the most dramatic shifts in attitude have occurred.

The Council's study on the taxation of capital income is intended to aid policy makers as they contemplate reforms in the years ahead. Research will focus on several aspects of this subject. It will analyse the potential impact of present and alternative tax treatments of capital income on efficient resource allocation and the distribution of income. Recommendations will be made on ways to improve the taxation of capital income and on the transitional measures needed to implement those recommendations. The study will also specify any additional changes in capital markets and related financial instruments that might be required.

Labour Market Impacts of Technological Change

The project aims to examine patterns of growth and change in

employment, output, and labour requirements in various sectors of the economy, with particular emphasis on the relative performance of the high-tech sectors and their employment consequences. Past trends and future prospects for income distribution will be analysed in the light of shifts in the occupational structure resulting from technological change.

The input-output structure of the Canadian economy will be used to project the possible employment effects of technological change in various industries and occupations. These will be based upon a variety of assumptions about future levels of economic activity, and the pace and nature of technological change. The study will also include a survey of Canadian organizations in order to assess institutional adaptations to technological change. This survey will examine trends and prospects in labour-management relations, patterns of working time, compensation policy, education, training, and the quality of working life.

The implications of technological change for the employment opportunities of women will be examined from the perspective of such issues as the effect of sectoral and occupational shifts on access to employment and the nature of work, and the outlook for the future. The special work-related problems of youth, the aged, and the handicapped in an era of rapid change will also be studied.

Finally, the study will make recommendations for policies on education, the worker training and mobility required by the adjustment process, the institutional adaptations accompanying technological change, and the social measures required to distribute equitably its benefits and costs.

Adjustment and Adaptation

The purpose of this undertaking is to examine how the Canadian economy has adapted to a variety of structural changes, especially in the international trading environment, and to recommend measures that might promote adaptability and thus enhance Canadian economic well-being. Three separate, though related, projects have been established:

Adaptation of Canadian Manufacturing Firms

In light of the forthcoming bilateral trade talks with the United States and the expected multilateral negotiations under the General Agreement on Tariffs and Trade (GATT), the Council will study the adaptation of the manufacturing sector to the lower tariff levels in recent years. This sector was chosen for study because it is where adjustment problems are likely to be the greatest.

The Council project will examine the impact of trade liberalization on the multinational enterprise, as well as the relative importance of trade among firms within an industry versus trade between industries. To determine whether federal policies have helped or hindered industry

adjustment and innovation, the research will include detailed case studies of several industries.

Trade Policy Options and Structural Adjustment in Canada

As part of this project, the Council will simulate the effects on the Canadian economy of a free trade agreement with the United States. It will also project the impact of the tariff and non-tariff cuts that are being phased in over the next few years within the GATT framework, as well as the impact of further cuts following the next round of GATT negotiations.

In particular, the project will study the process and speed of industrial adjustment in Canada by estimating the output and employment effects of trade liberalization, both by province and by industrial sector. The data derived from this project will be valuable in the assessment of the kind of industrial adjustment policies that might be needed for the future and will also help Canada to design better bargaining strategies for entering trade negotiations with other countries.

Other Research

Labour market adjustment—Structural changes in the Canadian economy could eliminate jobs and so impose costs on society, in the form of relocation and retraining assistance for displaced workers. The

process whereby these workers adjust to new opportunities has not been fully analysed to date. This research investigates this issue, with the objective of determining whether current labour market measures are effective in facilitating the necessary adjustment at the lowest possible cost.

Social policy and economic adjustment – Two major questions have been raised recently concerning Canada's social security system: the first regarding the possible impact of certain social programs on the economy; and the second concerning the direction that social policy should take in response to the adjustments that lie ahead for the Canadian economy.

In order to study the interaction between social policy and economic activity, the Council is developing a general equilibrium model, drawing on research carried out at Laval University. This work should help policy makers to gain a better understanding of the interaction between federal and provincial social programs with respect to such considerations as the actual net benefits being delivered to Canadians and the impact on incentives to work.

Explorations

Two projects of the Explorations Group were brought to fruition in fiscal year 1985/86: a Colloquium on the Environment (described on page 14) took place in Toronto in December, and a joint research project with the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) was completed and will culminate in Volume 6 of the Commission's Research Studies entitled "Role of Scale in Canada-U.S. Productivity Differences."

In addition, research to assess current financial problems in Canadian agriculture was undertaken, using consultation as well as sectoral financial analysis. This project tried to identify the group of farmers experiencing financial hardship. The findings will be released in 1986.

Preparations were made for the Colloquium on Aging with Limited Health Resources, to be held in Winnipeg in May 1986. The Colloquium addresses the problems and issues associated with Canada's aging population, rising health costs, government deficits, and limited tax revenues. Conference sessions will provide an international perspective

of the advantages and disadvantages of different health care systems; deal with aspects of the demand for, and supply of, health care; examine alternative modes of health care delivery; explore the advances of preventive care and new medical technology; indicate where the economic limits intersect with bioethics; and elaborate on Canada's future health care program.

Consultative and advisory activities

The Council spends a great deal of time giving and seeking advice, a key aspect of its work. The three full-time Council members, therefore, meet frequently with political, business, labour, academic, and other groups across the country.

One of the Council's strengths is that the part-time members represent many different sectors of the economy, as well as regions of the country. Members provide practical insight, which contributes to the value of Council documents. They take part in selecting research projects, reviewing research results, and developing policy advice to governments and the public. During the last year, for instance, they participated in the preparation of the Twenty-Second Annual Review, which touched on productivity problems, investment, and interest rates.

As well, part-time Council members actively participated on Advisory Committees for several projects, pertaining to the taxation of corporate income, technological change, and government enterprise.

The new Chairman, Judith Maxwell, is placing special emphasis on the role of these committees. They enable several Council members, together with other experts in a given field, to collaborate closely with the teams of researchers working on a project in order to bring a pragmatic dimension to the economic research and policy analysis process. The number of Advisory Committees ensures that all Council

members are implicated in this approach. Greater use of the expertise of Council members will facilitate the consensus-building process when the Council as a whole approves the policy recommendations of a report. The willingness of outside experts from both the private and public sectors to freely contribute their time and practical knowledge to the deliberations of these Advisory Committees will also enhance the effectiveness and prestige of Council reports.

Research groups also consult widely in carrying out their work, talking to experts in business, labour, and government, as well as commissioning studies by outside economic specialists. This last year was no exception. For example, the staff of the Labour and Technology Group have been especially active in making contact with business and labour representatives dealing with the impact of new technologies in the workplace. Keith Newton, the group's director, has been in demand as a resource person for a number of seminars and conferences set up by outside organizations. In addition, leading academics, knowledgeable on tax matters, met with members of the Taxation Group in in-house seminars.

Along with discussions on current research, the Chairman and the two full-time Directors meet frequently with senior representatives of federal and provincial governments and the private sector.

Before ending his term in October, David Slater, the outgoing Chairman, presented his position on free trade to the Special Joint Committee of

the Senate and of the House of Commons on Canada's International Relations. There, he stressed that Canada should push hard for lower trade barriers through multilateral talks under the General Agreement on Tariffs and Trade. A free-trade arrangement with the United States should be pursued as well, but only as a second-best solution.

In addition, Dr. Slater appeared before standing committees of the Senate and the House of Commons while they were considering the federal government's Green Paper on Financial Institutions. He also made a submission to the Newfoundland Royal Commission on Employment and Unemployment, updating some of the findings of the Council's 1980 report on the Newfoundland economy.

Peter Cornell, Council Director, presented a brief to the Ontario Select Committee, which was looking into the question of free trade with the United States.

Since becoming Chairman in November, Mrs. Maxwell has had a steady round of meetings with top federal and provincial public servants and political leaders, as well as with representatives of the private sector. She also visited Brussels and Paris, where she sought further insight into international financial and economic problems in discussions with officials of the Commission of the European Economic Community and the Organisation for Economic Co-operation and Development.

While visiting Paris, Brussels, and subsequently London, she met officials of leading research organizations as part of a continuing effort to maintain contact with research groups in Canada and abroad.

In appearances before the House of Commons Standing Committee of Finance, Trade, and Economic Affairs, Mrs. Maxwell discussed the medium-term outlook for the Canadian economy and answered questions ranging from the state of the Canadian dollar to energy prices.

In Canada, the Council keeps in touch regularly with other research bodies through the Economic Research Group, which includes a number of major public and private organizations. Dr. Cornell is now acting as co-ordinator of the Economic Research Group.

As well, there have been consultations and meetings with other federal research groups, such as the Science Council of Canada and the National Research Council.

Dr. Slater, Mrs. Maxwell, and the two Directors – Dr. Cornell and Patrick Robert – also spoke to a variety of groups, ranging from scientific organizations to business conferences.

Information and communications

Information is crucial to any meaningful debate on economic issues and policy options. In recent years, the Council has placed increasing emphasis on this aspect of its mandate, through a variety of initiatives.

Publications

Council reports, reflecting the views of Council members, and Council research studies, which are the responsibility of their authors, are published in both official languages and are available by mail order and in bookstores across the country. Over the past year, the Council has taken steps to ensure that these publications are designed to appeal to a wide general audience. That process entailed the creation of a new category for technical reports, which will also be available in both official languages by mail order and in bookstores.

In addition, the Council publishes discussion papers, which are available free of charge in the language of the author, who is responsible for the views expressed therein.

The Council also publishes a free quarterly magazine, *Au Courant*, which reaches a varied audience of over 40,000 readers. *Au Courant* reports on current Council research work, mixing interviews with articles on recent publications. In May of 1985, *Au Courant* received two major awards from the Information Services Institute, an organization for federal government and

freelance information specialists: an award of merit for Volume 5 (the four issues published in 1984-85); and an award of excellence (writing/editing) for a feature article on energy, which appeared in Volume 5, No. 3.

Public Relations

The Chairman and the two full-time Directors promote Council reports and recommendations through speeches and meetings with representatives from both the public and private sectors. In addition, the Council's media and public relations specialists are in constant contact with colleagues and institutions across the country, in order to draw attention to the Council as a source of up-to-date information on economic issues.

Conferences and Seminars

The Council holds seminars on a variety of research-related topics at regular intervals. Experts in various fields, from government, universities, and the private sector, frequently present their views at these seminars. In addition, the Council periodically sponsors, or is a contributor to, conferences pertaining to its research expertise.

Colloquium on the Environment

In December 1985, the Economic Council held a two-day Colloquium on the Environment in Toronto. The Colloquium was organized by the Council's Explorations Group as

part of its ongoing research into several areas, including the economics of environmental protection. More than 100 experts from diverse backgrounds in scientific research, economics, environmental management, public administration, and industry were invited to take part in the proceedings. Speakers and discussants examined the current state of the environment and recent efforts to clean up the environmental damage of the 1950s and 1960s; the costs and benefits of pollution control; the need for proper resource management and better toxic waste management; and the effects of such major environmental changes as a global warming of the environment. Papers presented at the Colloquium will be published in a single volume later in 1986.

Administrative and technical services

General Administration

The General Administration Group provides four principal types of service – administrative, personnel, financial, and library – all designed to support the work of the research and other service groups. While each of these groups has control over the resources required to fulfil its responsibility, the overall financial, personnel, property, and records administration rests with General Administration.

General Administration is required to ensure that the Council's administrative procedures comply with government regulations and directives; to provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources; and to develop overall plans and strategies with respect to the expected output performance and resource input requirements over the short-to-medium term. In each of these specified tasks, General Administration requires information from other groups, together with direction and final approval from the Council's senior management.

The Council Library

The Council Library exists primarily for the use of the Council staff but is also open to the public (under the terms of the Access to Information Act). It contains some 30,000 books, documents, reference works, and periodicals relating to economics, finance, social sciences, and statistics. The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council, as well as being a member of the Canadian Library Association and the Special Library Association. It is also a depository library for certain federal government publications.

The Library has undergone a year of general reorganization and updating of its collections in order to make them more easily accessible and more responsive to the needs of Council clientele. A major achievement in this regard was the installation of the datasystem DIALOG for on-line reference use. In addition, an automation system will be installed in the new fiscal year; the first function of which will be to automate the cataloguing/technical-processing area.

Data Processing

The Data Processing Group is responsible for data acquisition and manipulation, scientific and administrative programming, and computing services in support of Council research groups.

Computing services continue to be provided by the private-sector service bureau industry, supplemented by personal computers. With professional statistical and data manipulation software now available for these personal computers, the in-house "economists' workstation" is becoming a reality. In addition to the Taxation Group, the Financial Institutions and Social Policy Groups are using such technology for simple modeling and statistical analysis.

Fiscal year 1986/87 will see the introduction of a small personal computer-based management information system. The latter will help Council managers in monitoring the progress of research projects and in co-ordinating human resources. Efforts will also be made to further automate research support activities, such as records management and the library.

Senior management

Chairman

Judith Maxwell

Council Directors

Peter M. Cornell

Patrick Robert

Council Secretary

W. E. Haviland

Group Directors

Twenty-Third Annual Review

R. A. Jenness

CANDIDE and Twenty-Second
Annual Review

R. S. Preston

Government Enterprises

R. Hirshhorn

The Taxation of Capital Income

D. O. Sewell

Labour Market Impacts of
Technological Change

K. Newton

Explorations

R. A. Jenness

Financial Institutions

A. Ryba

Adjustment and Adaptation

P. Gorecki

S. Magun

Information

J. Fortin

General Administration

D. M. Paproski

Data Processing

A. Bourdon



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and
The Right Honourable Martin Brian Mulroney, P.C., M.P.
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1986. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditure and revenue of the Council for the year ended March 31, 1986, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

D.L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

A handwritten signature in cursive script, appearing to read "D.L. Meyers".

Ottawa, Canada
May 30, 1986

Statement of Operations
for the year ended March 31, 1986**Expenditure**

Operations

| | 1986 | 1985 |
|---|------------------|------------------|
| Salaries and employee benefits | \$ 5,432,456 | \$ 5,217,318 |
| Accommodation | 833,262 | 684,880 |
| Professional and special services | 744,552 | 930,346 |
| Publicity, publication of reports and studies | 232,420 | 368,104 |
| Communications | 220,757 | 215,509 |
| Office stationery and supplies | 174,974 | 161,464 |
| Travel and removal | 126,898 | 122,442 |
| Repair of office furniture and equipment | 50,014 | 39,879 |
| Rental of equipment | 44,932 | 42,260 |
| Office furniture and equipment | 40,954 | 105,638 |
| Renovations | 33,993 | 44,349 |
| Miscellaneous | 8,829 | 16,564 |
| | <u>7,944,041</u> | <u>7,548,753</u> |

Administration

| | | |
|-----------------------------------|------------------|------------------|
| Salaries and employee benefits | 727,635 | 623,869 |
| Executive Council members | 353,727 | 253,472 |
| Employee termination benefits | 281,044 | 27,097 |
| Professional and special services | 120,868 | 150,648 |
| Travel | 93,090 | 63,880 |
| | <u>1,576,364</u> | <u>1,118,966</u> |
| | <u>9,520,405</u> | <u>9,067,719</u> |

Revenue

| | | |
|---------------------------------------|---------------|------------|
| Refund of previous years' expenditure | 20,138 | 328 |
| Miscellaneous non-tax revenue | 45 | — |
| | <u>20,183</u> | <u>328</u> |

Net cost of operations**\$ 9,500,222** **\$ 9,067,391**

Reconciliation to use of appropriations:

| | | |
|---|--------------|--------------|
| Net cost of operations | \$ 9,500,222 | \$ 9,067,391 |
| Add: revenue credited to non-tax revenue | 20,183 | 328 |
| Less: services provided without charge by Government departments | 935,638 | 812,724 |

Use of appropriations (Note 3)**\$ 8,584,767** **\$ 8,254,995**

The accompanying notes are an integral part of this statement.

Approved by the Council:



Chairman



Director, General Administration

Notes to Statement of Operations

March 31, 1986

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The statement of operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(d) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

| | 1986 | 1985 |
|---|---------------------|---------------------|
| Privy Council | | |
| Vote 20 | \$ 8,062,499 | \$ 7,645,000 |
| Lapsed | 344,732 | 197,005 |
| | <u>7,717,767</u> | <u>7,447,995</u> |
| Statutory contributions to employee benefit plans | 867,000 | 807,000 |
| Total use of appropriations | <u>\$ 8,584,767</u> | <u>\$ 8,254,995</u> |

Publications of the Economic Council of Canada, 1985/86

Annual Report, 1984/85

David W. Slater (EC1/1985E – available free from the Economic Council)

Annual Review

Twenty-Second Annual Review: *Strengthening Growth*, 1985 (EC21-1/1985E; \$5.95 in Canada and \$7.15 in other countries)

Research Studies

Structural Change and Industrial Policy: The Redeployment of Canadian Manufacturing, 1960-80

R. A. Matthews, with the collaboration of Donald J. McCulla, 1985 (EC22-127/1985E; \$6.95 in Canada and \$8.35 in other countries)

The Potential Supply of Crude Oil and Natural Gas Reserves in the Alberta Basin

R. S. Uhler, with the collaboration of P. C. Eglington, 1986 (EC22-128/1986E; \$7.95 in Canada and \$9.55 in other countries)

Women Reentering the Labour Force and Training Programs: Evidence from Canada

Daniel Boothby, 1986 (EC22-129/1986E; \$5.95 in Canada and \$7.15 in other countries)

Periodicals

Au Courant, Vol. 6, Nos. 1, 2, 3, and 4

(available free from the Economic Council)

Reprints

Newfoundland: From Dependency to Self-Reliance, 1980

(EC22-85/1980E; \$10.95 in Canada and \$13.15 in other countries)

Connections: An Energy Strategy for the Future, 1985

(EC22-124/1985E; \$9.95 in Canada and \$11.95 in other countries)

Living Together: A Study of Regional Disparities, 1977

(EC22-54/1977E; \$7.50 in Canada and \$9.00 in other countries)

Responsible Regulation: An Interim Report, 1979

(EC22-70/1979E; \$7.25 in Canada and \$8.70 in other countries)

In Short Supply: Jobs and Skills in the 1980s, 1982

(EC22-108/1982E; \$7.95 in Canada and \$9.55 in other countries)

Looking Outward: A New Trade Strategy for Canada, 1975

(EC22-27/1975E; \$8.95 in Canada and \$10.75 in other countries)

The Choice of Governing Instrument

M. J. Trebilcock, D. G. Hartle, R. S. Prichard, and D. N. Dewees, 1982 (EC22-101/1982E; \$8.95 in Canada and \$10.75 in other countries)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Information Division, Economic Council of Canada, P.O. Box 527, Ottawa, Ontario, K1P 5V6.

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Economic Council of Canada

Annual Report

1986-87

The Economic Council of Canada is a national research and advisory body, established by Parliament in 1963, with broad terms of reference to conduct research and to recommend policies to ensure Canada's continued economic growth and well-being. It seeks to inform Canadians on economic problems and to stimulate public discussion of policy strategies to address those problems.

The Council's role, as stipulated in its Act, is to "advise and recommend how Canada can achieve the highest possible levels of employment and efficient production in the medium and long term in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards."

The Council's work is carried out in consultation with business, labour, government, and interested Canadians. This dialogue helps the Council to set an agenda relevant to the issues facing policy makers and ensures that expert analysis by the staff and researchers on contract is both accurate and pragmatic.

The Council's research and its policy advice are made public in English and French through publications, conferences, workshops, and media interviews.

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Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 30, 1987

The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada



Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1987, as required by the *Economic Council of Canada Act*.

Yours sincerely

Judith Maxwell

Judith Maxwell
Chairman

A Message from the Chairman

When the Economic Council of Canada was founded in 1963, Parliament set out three policy goals, saying that "it shall be the duty of the Council to advise and recommend . . . how Canada can achieve

- the highest possible levels of employment and efficient production;
- . . . a high and consistent rate of economic growth; and
- . . . rising living standards [for all Canadians]."

These goals are as relevant, and as imposing, in 1987 as they were in 1963. We have enjoyed periods of strong growth; employment has increased dramatically; and living standards for most Canadians have improved considerably. Nevertheless, we are far from meeting the desired performance. Unemployment averaged 9.6 per cent in 1986; growth has slowed to near 2.5 per cent; and the living standards of many Canadians have slipped badly in the 1980s.

In this climate there is no question that governments require sound advice on policy choices and fresh insights into economic problems. The challenge for the Council is to focus its research effort on economic issues of national significance — issues that will be important to our economic performance, nationally or regionally, in the next two to five years.

In the past year, the Council has completed work on tax reform, financial regulation, and the role of government enterprise. We are continuing our work on trade policy, analysing the potential impact of a Canada-U.S. trade agreement, and on

a related project that explores how manufacturing firms will adapt to changing market conditions such as falling trade barriers.

The Technological Challenge

We have also put the finishing touches on a report on the impact of new technologies on the job market. This report, to be released in June 1987, demonstrates clearly what a challenge Canadians face. We have no choice but to foster the use of these new technologies if, as a nation, we are to achieve the goals of high levels of production and employment, economic growth, and rising living standards, as set for the Council. The technologies are essential to the survival of firms facing international competition, and they offer great scope for more-efficient and better-quality production of both goods and services. Yet this vital commitment to the future well-being of Canadians entails hardship for many whose current jobs will change or disappear. Thus the Council has concentrated much of its research effort on identifying ways of smoothing the adjustment to the new technologies. Our report has focused on the relationship between people and technology, on the need for management and employees to manage the technologies jointly, and on the contribution that government programs can offer in helping to make technology work.

Tomorrow's Issues

Looking down the road, the problems of national significance that the Council will address in the next year to 18 months include the "revolution" that is taking place in international financial markets and the growing regional imbalances in the country.

Global Integration

The trend toward global integration in capital markets has already had a striking impact on the government bond market in the United States, and it has increased the volatility of exchange rates.

But if the trend toward financial integration continues, as most experts now expect it will, how should governments respond? What are the consequences for the effective regulation of financial markets and the solvency of financial institutions? How will the advent of giant international institutions affect the quality of financial services available to small and medium-sized firms? What are the consequences for the capacity of Canadian governments to exercise independent approaches to monetary and fiscal policy? These are some of the questions we shall address in this new study.

Canada's Regions

The Council has also launched two projects with a regional focus: regional policy; and Prairie agriculture.

The *Directions for Regional Development* project was provoked by two factors: the evidence that the Atlantic and Western provinces have not shared the benefits of the economic expansion since 1982; and the evidence that governments need help in thinking out an effective response to regional problems. Large sums of money are being transferred to individuals and to provinces with weak economic bases, but no one seems to have a clear sense of how we can strengthen the economic base of a community or a region in order to generate self-sustaining growth.

In attacking this intractable problem, the Council is adopting a grass-roots approach that goes well beyond traditional economic analysis. We shall be doing case studies to examine the record of both the successes and failures of instructive local, area, or regional development initiatives within recent years. Regional advisors will consult with key stakeholders, placing special emphasis upon those with direct practical experience and commitment. The goal is to animate a discussion of regional development in Canada and thus to give new direction to regional policies at all levels of government.

Adaptation in Agriculture

The *Future of the Prairie Grain Economy* project addresses the deep concerns of Western farmers hit by

low prices, poor crops, and high operating and financing costs. Premier Grant Devine of Saskatchewan wrote to the Council in 1986, suggesting that it was time for a national organization to address this issue. We immediately recognized the need for the project but, at the same time, realized that a credible project would be too big for the Council's limited resources. We therefore organized a joint project funded by federal, provincial, and private-sector interests.

This funding has allowed us to contract part of the work to highly respected scholars at the University of Saskatchewan in Saskatoon and to several U.S. economists. They will focus most of their effort on an analysis of future markets for grain and on the evaluation of the impact of government subsidies, price supports, and supply management on the future demand for, and supply of, grains and oil seeds. At the same time, researchers at the Council will concentrate on analysis of how the Prairie farm community has responded to recent trends in the international market. These two elements will provide the foundation for Council advice — in its final report, scheduled for 1988 — as to how federal and provincial governments can help the Prairie economy

to adapt to, and survive, this painful period in farm history.

The Road Ahead

These three new projects are examples of how the Council must carefully select its research topics. Our contribution to achieving the policy goals outlined earlier will be determined by the Council's ability to pick subjects of national significance and then use all our skills as analysts to get to the root of the problem.

The Council has a duty not only to understand and explain the problem, but also to provide pertinent advice to policy makers as to how the problem can be overcome. In that process, we hope to provoke debate and to help Canadians gain a better understanding of the policy choices that their legislators face.

Meeting the goals of employment, growth, and rising living standards will not be easy in the turbulent international economic climate that Canadians face in the next few years. Because depressed commodity prices act as a drag on economic growth, Canadians will have to work hard to maintain their forward momentum.

The Economic Council of Canada will be working full tilt to contribute both good ideas and solid analysis to help Canada meet its policy goals.

Members of the Economic Council of Canada

The Council comprises an appointed board made up of three full-time and up to twenty-five part-time members, appointed by the federal government. The full-time members, the Chairman and two Directors, manage the work of a staff of economists and other specialists. The part-time members, who represent various sectors of Canadian society and regions of the country, meet four or five times yearly to discuss Council concerns. They receive no salary or honorarium, although their expenses are covered by the Economic Council.

Council members take part in selecting research topics, reviewing research results, and developing policy advice for governments and the public. As well, they serve on advisory committees for Council research projects, together with outside experts in the particular field under study. This involvement gives pragmatic guidance to the research and facilitates the development of consensus among Council members in fashioning the final Statement or Report.

Members of the Economic Council of Canada

Judith Maxwell
Chairman

Caroline Pestieau
Director

Miller H. Ayre
President and
Chief Executive Officer
Ayre's Limited
St. John's, Newfoundland

Philip C. Barter
Partner
Price Waterhouse and Co.
Vancouver, British Columbia

Jalynn H. Bennett
Corporate Development
Vice President
The Manufacturers Life Insurance
Company
Toronto, Ontario

Martin I. Chernin
Secretary-Treasurer
Pearl Realty Company Limited
Sydney, Nova Scotia

Dian Cohen
President
Cohen Couture Associates
Montreal, Quebec

Pierre Fortin
Professor
Department of Economics
Université Laval
Quebec, Quebec

Yves Guérard
President
Groupe Sobeco Inc.
Montreal, Quebec

Chaviva Hosek
Partner
Gordon Capital Corporation
Toronto, Ontario

Chester A. Johnson
Chairman
B.C. Hydro and Power Authority
Vancouver, British Columbia

Kalmen Kaplansky
Former Director
Canadian Branch Office
International Labour Organization
Ottawa, Ontario

George A. Key
Businessman
Summerside, P.E.I.

Raymond Koskie
Koskie & Minsky
Barristers and Solicitors
Toronto, Ontario

Michel Latraverse
President
Willco Industries Corporation
Montreal, Quebec

Raymond J. Nelson
President
Nelson Lumber Co. Ltd.
Lloydminster, Alberta

Constantine E. Passaris
Professor
Department of Economics
University of New Brunswick
Fredericton, New Brunswick

Steve A. Stavro
President
Knob Hill Farms Ltd.
Scarborough, Ontario

Susan A. Thompson
President and General Manager
The Birt Saddlery Co. (1980) Ltd.
Winnipeg, Manitoba

Graham Wilson
Vice-President and Secretary
Dofasco Inc.
Hamilton, Ontario

Membership Changes

During the year ending March 31, 1987, several changes in membership took place:

The following members resigned:

Peter M. Cornell, Director
(December 31, 1986)
James A. Coombs (June 6, 1986)
James F. Kay (August 27, 1986)

The terms of the following members expired:

Roger Beauchemin (September 8, 1986)
Gordon Hill (September 8, 1986)
Peter Podovnikoff (September 8, 1986)
Alastair Ross (March 21, 1987)
Patrick Shimbashi (March 21, 1987)
Margaret Cornish-Kehoe (March 15, 1987)
Diane Bellemare (March 23, 1987)

The following members were appointed:

Caroline Pestieau, Director
(March 23, 1987)
Chester Johnson (September 11, 1986)
Raymond Nelson (June 6, 1986)
Michel Latraverse (June 6, 1986)
Raymond Koskie (June 6, 1986)
Steve A. Stavro (November 6, 1986)
H. Graham Wilson (November 7, 1986)
Chaviva Hosek (September 11, 1986)

Retirement

In December 1986, Dr. Peter Cornell retired as Director of the Economic Council. Dr. Cornell joined the Council in 1966 as a senior economist, and over the course of the next 15 years supervised a number of major Council projects, including its work on commercial policy, on retirement incomes, and on productivity. In 1981 he was appointed Council Director and in that capacity assisted in the direction of the overall research program and corporate operations.

New appointment

Caroline Pestieau was appointed Director of the Economic Council, effective March 1987. Prior to this appointment she was Commissioner and founding member of Quebec's Access to Information Commission. Between 1970 and 1983 she worked at the C. D. Howe Institute as research economist, senior economist, director of Research Studies, and head of the Montreal office. She has taught at the Collège St-Laurent and the CEGEP de St-Laurent in Montreal, and at the University of the West Indies, and is author of several studies on Canadian industrial and commercial policy.

Research Activities

The Council usually determines which topics will be researched and analysed. (On occasion the Prime Minister refers subjects to the Council for study.) Work is then carried out by the various project groups, which are composed of professional staff with training in economics and related disciplines and with experience in university, industry, or government. Consultants with specialized knowledge may be included in the project groups.

The scope and time frame for research initiatives are designed to

generate reports within 18 to 24 months. Usually these results are published in the form of a Council Statement, accompanied by a Research Report. The Statement – which provides a summary of the research results and the Council's recommendations – represents the views of Council members. It is shorter, more succinct, and less technical than its companion Research Report, which provides the technical information important to experts in the field of study and

which is written under the responsibility of the research group.

In addition, the Economic Council publishes research studies (designed for a wide, general audience); technical reports and discussion papers (designed for experts in the field); and, on occasion, the proceedings of conferences, all under the responsibility of the individual authors.

This year the Economic Council published its Annual Review of the economy, two Statements, and two Research Reports, described below:



Twenty-Third Annual Review: Changing Times

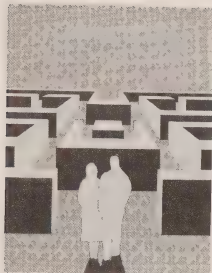
Canada must redefine its role in the resource sector, rethink its approach to public policy, and pursue its options with respect to freer international trade, the Economic Council concluded in its Twenty-Third Annual Review of the economy, *Changing Times*.

In particular, the Council advocated a new government approach to the taxation of capital income, the regulation of financial institutions, and the organization of health care. It also touched on the troublesome issue of resource management, in the areas of agriculture, oil and gas, and the environment.

As well, the Council undertook a number of simulations to determine

the impact of trade liberalization and of increased protectionism on output and employment in Canada in the light of freer international trade and the prospect of a bilateral trade agreement with the United States. It concluded that while freer trade would entail some adjustments, overall it would significantly benefit the Canadian economy.

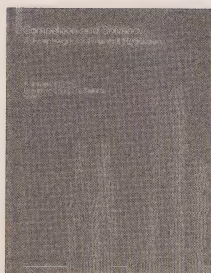
In its medium-term outlook for the economy, included in the Review, the Council projected growth in real gross national expenditure of about 3 per cent annually over the next five years, with consumer expenditures and domestic investment providing most of the stimulus. The Council anticipated that inflation would remain low during that period, but unemployment would continue to hover in the 9 per cent range.



Road Map for Tax Reform: The Taxation of Savings and Investment

In this Statement, the Council analysed the major taxes on income, sales, property, and resources in Canada, and put forward recommendations designed to make the tax system more efficient, to increase the standard of living, and to treat equals equally. The Council argued that the existing system prevents the economy from performing at its potential by impairing the rate of

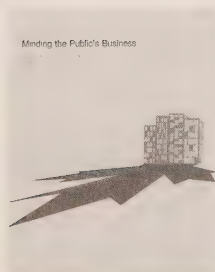
capital formation and by encouraging investments in projects that are attractive only because of their favourable tax treatment. The main thrust of the Council's proposals is to reduce these efficiency losses and at the same time to create a fairer and simpler tax system. Among the Council's suggestions were the introduction of broader tax bases and lower tax rates. (A Research Report detailing the Council's research on taxation will also be published under the title, *The Taxation of Savings and Investment*.)



Competition and Solvency: A Framework for Financial Regulation

In this Statement, the Council put forward a new framework for financial regulation, on the grounds that the existing regulatory system had not kept pace with changes in the marketplace. Because of the importance to the economy of an efficient and sound financial system, the Council recommended changes that would increase competition and enhance solvency. Regulators would

be given new powers, and institutions would have full scope for diversification if certain conditions were met. The Statement also looked at such issues as ownership, conflict of interest, consumer protection, various institutional practices, and the need to harmonize financial regulation among provinces and different regulatory agencies, and between the federal and provincial governments. A Research Report detailing the Council's research on financial institutions was also published under the title, *A Framework for Financial Regulation*.



Minding the Public's Business

This Research Report discusses the role of government enterprise in Canada. The Council developed a general framework for the evaluation of public enterprise and applied it in the examination of a number of federal and provincial corporations.

The case studies led to some important recommendations concerning the privatization or restructuring of major corporations. At a more general level, the Report put forward suggestions for improving the management and control of public corporations, and provided guidelines for determining under what circumstances they would be the most appropriate policy instruments.

Ongoing Research

Research Planning and Coordination

A formalized research planning and coordination function was introduced at the Council this year so that potential bottlenecks and resource constraints could be foreseen and, to the extent possible, eliminated. To support this effort, the Council implemented a forward-looking, computerized project-management system encompassing its research and research-support activities. This system provides schedules of activities by type, reports on the projected allocation of staff to activities, and identifies peak loads on research-support activities.

For its own planning purposes, the Council has developed a "research map" that identifies the subjects currently under study by the major economic research bodies in Canada. The Economic Research Group, which represents the major economic research organizations in Canada, agreed to cooperate in developing a more formal information-exchange system to keep members better informed of ongoing projects and to avoid duplication of effort.

Twenty-Fourth Annual Review

The Council's Twenty-Fourth Annual Review of the Canadian economy, to be published in the fall of 1987, will examine some of the important structural changes presently taking place, both domestically and internationally, that will influence Canada's long-term economic

performance. These include the globalization of markets and the potential impact of a Canada-U.S. trade agreement.

As well, the medium-term outlook and policy simulations will be developed. Projections will include both a base case and a performance band, identifying the uncertainties that should be considered in any medium-run planning environment.

Labour Market Impacts of Technological Change

This project examines patterns of growth and change in employment, output, and labour requirements in various sectors of the economy, with particular emphasis on the relative performance of the high-tech sectors. Past trends and future prospects for income distribution are analysed in the light of shifts in the occupational structure resulting from technological change.

Projections are made concerning the possible employment effects of microelectronics-based technological change in various industries and occupations. These are based upon a variety of assumptions about future levels of economic activity and about the pace and nature of technological change. The study also includes a survey of Canadian organizations in order to assess worker adaptation to technological change. Other aspects of the project include trends and prospects in labour-management relations, patterns of working time, compensation policy, education, training, and the quality of working life.

The implications of technological change for the employment oppor-

tunities of women are examined from the perspective of such issues as the effect of sectoral and occupational shifts on access to employment and the nature of work, and the outlook for the future. The special work-related problems of youth, older workers, and the disabled in an era of rapid change are also studied.

Adaptation of Manufacturing Firms

In light of the current bilateral trade talks with the United States and the renewed multilateral negotiations under the General Agreement of Tariffs and Trade (GATT), the Council is studying the adaptation of the manufacturing sector to the lower tariff levels in recent years. This sector was chosen for study because it is where adjustment problems are likely to be the greatest.

The Council project is examining the impact of trade liberalization and other factors on the multinational enterprise, as well as the relative importance of trade among firms within an industry versus trade between industries. To determine whether federal policies have helped or hindered industry adjustment and innovation, the research includes detailed case studies of several industries.

Trade Policy Options and Structural Adjustment

As part of this project, the Council will simulate the effect of a free-

trade agreement with the United States on output, employment, and incomes in Canada. It will also project the impact of the tariff and non-tariff cuts that are being phased in over the next few years within the GATT framework, as well as the impact of further cuts following the next round of GATT negotiations.

In particular, the project will study the process and speed of industrial adjustment in Canada by estimating the output and employment effects of trade liberalization, both by province and by industrial sector. The data derived from this project will be valuable in assessing the kind of industrial adjustment policies that might be needed for the future and will also help Canada to design better bargaining strategies before entering into trade negotiations with other countries.

International Finance

In recent years, international capital flows have increased at a dramatic pace; new financial instruments have appeared; and financial institutions have become increasingly competitive on world markets. In this project, the Council will look at how the stability or fragility of the international financial system affects Canada.

In particular, the project will focus on determining the steps necessary to strengthen Canada's position and participation in global financial markets. In this context, special attention will be given to such issues as trade in financial services, and the future of the Canadian securities industry and of Toronto as an important financial centre. Third

World debt problems and the need to harmonize financial regulation and to coordinate macro-policies among countries are related issues.

The Future of the Prairie Grain Economy

Prairie agriculture is a key sector of the Canadian economy. But in recent years Prairie grain yields have been cut by drought and grasshopper infestation. A heavy load of debt has added to farm expenditures, and farm incomes have declined because of a sharp drop in international grain prices. Prairie farms are caught in a severe cost/price squeeze.

The broad objective of this project (which was referred to the Council by the Prime Minister) is to examine the factors that have shaped the Prairie farm situation and those which will influence its future, and to show how these developments can be integrated with policy choices.

In particular, the project will examine how farm policies in major grain importing and exporting countries have affected global markets; whether the excess supplies of today are a short-term aberration or a long-term trend; whether Canada's traditional grain markets are fading and whether there is a need to diversify into markets of the newly developing countries; and how much of the change in farm income over the past decade or two has resulted from changes in grain prices and how much from yield technology. In addition, the project will include an examination of farm income, of farm costs and rural/urban adjustment

trends, and of the potential for greater diversification into livestock production and marketing. Finally, the Council will review existing federal and provincial grain policies and recommend policy options for the future development of the Prairie grain economy.

Performance and Outlook

The Performance and Outlook Group is responsible for assessing the impact of the Council's macro-policy advice and for monitoring national and international economic developments. It carries out economic simulations using computer models to determine the impact of the Council's policy prescriptions and the effects of various economic developments, such as changes in fiscal, monetary, or trade policy; an increase in interest rates; or the impact of federal and provincial budgets. It will also provide the medium-term outlook for the economy in the Council's Twenty-Fourth Annual Review.

This year the Group introduced a new approach to econometric modeling that will help the Council to provide better policy advice. The changes involved reorganizing the CANDIDE econometric modeling process with the introduction of a new package of models, software, databases, and some new computer equipment. The changes will make the Group's economic simulations more realistic by reducing the time it takes to do them. Ultimately this will improve the analysis on which the Council bases its policy advice. As a bonus, the new system will cost less to use than did CANDIDE.

The Challenge of the Nineties

Canadians are facing a rapidly changing world economic environment, characterized by such factors as rising protectionism, increased competition, technological change, and emerging new service industries. These changes will bring both opportunities and challenges for the 1990s, and it is likely that important structural and attitudinal adjustments will be required in order to deal successfully with the changing economic environment. Canadians must consciously seek and promote ways to ensure continuing prosperity.

This Council project will describe and analyse the changes in the world economy that are most likely to occur in the coming years. It will focus on areas where Canadians can best make policy adjustments. Particular attention will be paid to Canada's human resources. In broad terms, the Council will explore ways of maintaining and promoting a high level of skill in the labour force and will focus more specifically on such topics as the management of technological change; education; and immigration.

Directions for Regional Development

Canada made a major commitment to regional economic development over the past 25 years, but policies in that area are now in disarray. This

project will explore the key ingredients of success in the rebirth of certain communities across Canada that have managed to overcome the trend toward economic stagnation.

The project will differ from the Council's traditional approach to research in three ways: the information will primarily be qualitative instead of quantitative; most of the work will be carried out in the regions, under the supervision of four regional advisors; and its focus will emerge from a process of consultation with key stakeholders. The consultations will generate information about past successes and failures with respect to regional development; specific case studies of important new developments over the past decade; and guidelines for future regional development policies.

Social Policy

A number of questions have been raised recently concerning Canada's social security system: What effect do social programs have on the economy? Do they complement or conflict with other programs, such as those in the tax or unemployment insurance fields? Do social policies need an overhaul in light of the adjustments that lie ahead for the Canadian economy?

The Council will examine the interaction between social programs, personal taxation, and unemployment insurance, and will try to throw some light on the net effects of these programs on the level of economic activity in the country. Council researchers will also review measures of poverty and investigate why some households move in and out of poverty while others remain trapped below the poverty line.

Explorations

The Explorations Group is charged with developing issue papers and supervising small projects that do not involve consensus reports. This year, it examined the costs and benefits of Canada's recent experience with federal job-creation incentives directed at the private sector on behalf of targeted groups of unemployed persons.

It also carried out a preliminary study of the main factors determining the quality of elementary and secondary education, and it looked at how Canada compares with other countries. A major shortcoming identified for Canada was the lack of regular, competitive student test scores.

In addition, it developed and organized the Colloquium on Aging with Limited Health Resources, described later on.

Consultative and Advisory Activities

The Council spends a great deal of time giving and seeking advice – a key aspect of its work. Consequently, the three full-time Council members meet frequently with political, business, labour, academic, and other groups across the country.

This year, the Chairman initiated the procedure of providing briefings for relevant federal and provincial policy makers and private-sector groups in advance of the release of Council Statements and Research Reports. In addition, the Council was regularly invited to express its views to a wide variety of organizations and interests.

This year, also, the Chairman addressed the Cabinet Committee on International Trade with regard to the Council's recent research on trade liberalization. She appeared before the House of Commons Standing Committee on Finance and Economic Affairs on three occasions to discuss, respectively, the Council's main estimates, the Council's Twenty-Third Annual Review of the economy, and the Council's Statement on the taxation of savings and investment. She also appeared before the House of Commons Standing

Committee on Labour, Employment and Immigration to discuss the Council's research on the impact of technology on labour markets.

Over the year, the Chairman consulted with numerous senior provincial officials and ministers, as well as with prominent Canadians in the private sector and academic community. Her discussions with the Council of Maritime Premiers and with Premier Devine of Saskatchewan contributed to the development of the Council's research plan. She also consulted with leading representatives of Canadian labour unions and initiated a series of round-table discussions with labour representatives.

The Council has also kept in touch with key economic and policy interests through its ongoing participation in the Economic Research Group – a body of chief executives from Canada's economic and policy research institutions. In 1986/87, Council Director Dr. Peter Cornell was responsible for coordinating this group.

To keep Canadians informed about Council activities, the Chairman delivered a number of keynote speeches during the year to: the Canadian Steel Trade Conference in May, on industrial adaptation; the Canadian Club in Montreal in October, on the Council's Twenty-Third Annual Review of the economy; the Society of Financial Analysts in November, on the Council's Statement on reforming financial regulation; the Empire Club in Toronto in January, on the repercussions for Canada of U.S. tax reform measures; and the Canadian Club in Ottawa in February, concerning the Council's research on the taxation of savings and investment.

On the international stage, the Chairman held discussions with members of the Organisation for Economic Co-operation and Development (OECD) and with key research organizations in England, Belgium, and the United States.

Information and Communications

Information is crucial to any meaningful debate on economic issues and policy options. In recent years, the Council has placed increasing emphasis on this aspect of its mandate, through a variety of initiatives. It publishes a wide range of reports on relevant and important economic concerns; senior management advises, and consults with, representatives from the public and private sectors across the country; and the Council's media and public relations specialists are in constant contact with colleagues and institutions in order to draw attention to the Council as a source of up-to-date information on economic issues.

Publications

Council reports, reflecting the views of Council members, and Council research studies, which are the responsibility of their authors, are published in both official languages and are available by mail order and in bookstores across the country. The Council has taken steps to ensure that these publications are designed to appeal to a wide general audience. That process entailed the creation of a new category for technical papers, which are also available, in both official languages, by mail order and in bookstores.

In addition, the Council publishes discussion papers, which are available free of charge in the language of the author who is responsible for the views expressed therein.

The Council also publishes a quarterly magazine, *Au Courant*, which reaches a varied audience of over 40,000 readers. *Au Courant* is used by the Economic Council to inform Canadians about its ongoing research and to market its publications. In May 1986, *Au Courant* received honourable mention from the Information Services Institute for a feature article on VIA Rail. The ISI is an organization for federal government and freelance information specialists.

Conferences and Seminars

The Council holds seminars on a variety of research-related topics at regular intervals. Experts in various fields, from government, universities, and the private sector, frequently present their views at these seminars. In addition, the Council periodically sponsors, or is a con-

tributor to, conferences pertaining to its research expertise.

Colloquium on Aging with Limited Health Resources

A Colloquium on Aging with Limited Health Resources was held in Winnipeg in May 1986. The proceedings were published in May 1987. The Colloquium addressed the problems and issues associated with Canada's aging population, rising health costs, government deficits, and limited tax revenues. Conference sessions provided an international perspective of the advantages and disadvantages of different health care systems; dealt with aspects of the demand for, and supply of, health care; examined alternative modes of health care delivery; explored the advances of preventive care and new medical technology; indicated where the economic limits intersect with bioethics; and elaborated on Canada's future health care program.

Administrative and Technical Services

Finance, Administration, and Personnel

The Finance and Administration Group and the Personnel Services Group provide the necessary administrative support for the Council's senior management, research staff, and other service groups. They ensure that the Council's policy and procedures relating to finance, administration, and personnel activities comply with government regulations and directives; develop budgets based on expected output performance and resource input requirements over the short-to-medium term; and provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources. In each of these tasks, they require continual information from other Council groups, together with direction and final approval from the Senior Management Committee.

The Council Library

The Council Library exists primarily for the use of the Council staff but is also open to the public (under the terms of the *Access to*

Information Act). It contains some 30,000 books, documents, reference works, and periodicals relating to economics, finance, social sciences, and statistics. The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council, as well as being a member of the Canadian Library Association and of the Special Library Association. It is also a depository library for certain federal government publications.

Automation has been the main thrust of Library activities over the past year. The Library's on-line reference service now has access to CAN/OLE, INFOGLOBE, and DIALOG. These systems can be used to answer particular questions or, on a long-term basis, to develop subject expertise. Clients of the Library may now access all documents in the collection catalogued after 1980, on-line, in any combination via INMAGIC – the software package selected by the Library for its automation needs. Continued conversion of the card catalogue will occur in the new year, along with the introduction of automation in other library functions.

Informatics

The Informatics Group is responsible for data acquisition, verification, and manipulation; scientific

and administrative programming; computing services, in support of research groups; and other activities.

While computing services continue to be provided by the private sector's service bureau industry, supplemented by personal computers, this year the Council purchased a small in-house mainframe computer, which has reduced its requirement for private-sector computer services. It also acquired additional software products for econometric modeling and statistical analysis on microcomputers. The introduction of desktop publishing, using microcomputers, has produced savings of time and money in the publication of research documents. Finally, the acquisition of portable microcomputers has provided greater flexibility in setting up economists' work stations and in carrying out many administrative functions.

Fiscal year 1987/88 will see the introduction of office automation functions for senior Council staff. The new in-house mainframe computer will permit the full integration of various data and word-processing equipment. Electronic mail between Council staff will also be available.

Senior Management

Chairman

Judith Maxwell

Council Director

Caroline Pestieau

Corporate Secretary

Warren H. Maidens

Group Directors:**Twenty-Fourth Annual Review; and
Explorations**

R. A. Jenness

Performance and Outlook

R. S. Preston

Government Enterprises

R. Hirshhorn

The Taxation of Capital Income

D. O. Sewell

**Labour Market Impacts of
Technological Change**

K. Newton

**Financial Institutions; and
International Finance**

A. Ryba

**Adaptation of
Manufacturing Firms**

P. Gorecki

**Trade Policy Options
and Structural Adjustment**

S. Magun

Social Policy

S. Damus

Regional Development

D. Brodhead

**The Future of the
Prairie Grain Economy**

A. Schmitz/L. Auer

**Research Planning and
Coordination**

R. Zuker

Information

J. Fortin

Finance and Administration

C. Chapman

Informatics

A. Bourdon



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and
The Right Honourable Martin Brian Mulroney, P.C., M.P.
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1987. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the results of operations of the Council for the year ended March 31, 1987, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

D.L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

A handwritten signature in cursive script, appearing to read "D. Meyers".

Ottawa, Canada
May 29, 1987

Statement of Operations
for the year ended March 31, 1987

| Expenditure | 1987 | 1986 |
|---|----------------------------|----------------------------|
| Operations | | |
| Salaries and employee benefits | \$ 5,750,076 | \$ 5,432,456 |
| Accommodation | 833,322 | 833,262 |
| Professional and special services | 793,214 | 744,552 |
| Office furniture and equipment | 239,206 | 40,954 |
| Publicity, publication of reports and studies | 217,323 | 232,420 |
| Communications | 194,652 | 220,757 |
| Office stationery and supplies | 185,204 | 174,974 |
| Travel and removal | 128,232 | 126,898 |
| Rental of equipment | 56,600 | 44,932 |
| Repair of office furniture and equipment | 31,337 | 50,014 |
| Renovations | 30,931 | 33,993 |
| Miscellaneous | 9,558 | 8,829 |
| | <u>8,469,655</u> | <u>7,944,041</u> |
| Administration | | |
| Salaries and employee benefits | 683,953 | 727,635 |
| Executive Council expenditures | 281,970 | 418,510 |
| Employee termination benefits | 158,500 | 281,044 |
| Professional and special services | 107,843 | 120,868 |
| Travel | 29,690 | 28,307 |
| | <u>1,261,956</u> | <u>1,576,364</u> |
| | <u>9,731,611</u> | <u>9,520,405</u> |
| Revenue | | |
| Non-tax revenue | | |
| Refund of previous years' expenditure | 3,959 | 20,138 |
| Miscellaneous | 124 | 45 |
| | <u>4,083</u> | <u>20,183</u> |
| Net cost of operations (Note 3) | <u>\$ 9,727,528</u> | <u>\$ 9,500,222</u> |

The accompanying notes are an integral part of this statement.

Approved by the Council:

Judith Maxwell

Chairman

Catherine Chyman

Director, Finance and Administration

Notes to Statement of Operations
March 31, 1987

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The statement of operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Services provided without charge

Estimates of amounts for services provided without charge by Government departments are included in expenditure.

(d) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

| | 1987 | 1986 |
|--|--------------|--------------|
| Privy Council | | |
| Vote 20 | \$ 7,992,000 | \$ 7,859,000 |
| Supplemented by Treasury Board | | |
| Vote 5 | 83,000 | 268,899 |
| | 8,075,000 | 8,127,899 |
| Lapsed | 191,839 | 410,132 |
| | 7,883,161 | 7,717,767 |
| Statutory contributions to employee benefit plans | 888,000 | 867,000 |
| Total use of appropriations | 8,771,161 | 8,584,767 |
| Add: Services provided without charge by Government Departments | 960,450 | 935,638 |
| Less: Non-tax revenue | 4,083 | 20,183 |
| Net cost of operations | \$ 9,727,528 | \$ 9,500,222 |

4. Comparative figures

The 1986 comparative figures have been restated to conform with the presentation adopted for 1987.

Publications of the Economic Council of Canada, 1986/87

Annual Report, 1985/86

Judith Maxwell (EC1/1986E – available free from the Economic Council)

Annual Review

Twenty-Third Annual Review:

Changing Times, 1986

(EC21-1/1986E; \$6.95 in Canada and \$8.35 in other countries)

Council Reports

Competition and Solvency: A Framework for Financial Regulation

(EC22-134/1986E; \$4.95 in Canada and \$5.95 in other countries)

Minding the Public's Business

(EC22-135/1986E; \$10.95 in Canada and \$13.15 in other countries)

Road Map for Tax Reform: The Taxation of Savings and Investment

(EC22-136/1987E; \$4.95 in Canada and \$5.95 in other countries)

Research Report

A Framework for Financial Regulation

(EC22-137/1987E; \$8.95 in Canada and \$10.75 in other countries)

Conference Proceedings

Managing the Legacy: Proceedings of a Colloquium on the Environment, December 1985

(EC22-131/1986E; \$9.95 in Canada and \$11.95 in other countries)

Research Studies

Forest Management and Economic Growth in British Columbia

M. B. Percy, 1986 (EC22-130/1986E; \$7.95 in Canada and \$9.55 in other countries)

Workable Futures: Notes on Emerging Technologies

Words Associated and Keith Newton (EC22-132/1986E; \$5.95 in Canada and \$7.15 in other countries)

Working with Technology: A Survey of Automation in Canada

Gordon Betcherman and Kathryn McMullen (EC22-133/1986E; \$3.95 in Canada and \$4.75 in other countries)

Periodical

Au Courant, Vol. 7, Nos. 1, 2, 3, and 4 (available free from the Economic Council)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Information Division, Economic Council of Canada, P.O. Box 527, Ottawa, Ontario, K1P 5V6.

Economic Council of Canada

Annual Report

1987-88

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Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 30, 1988

The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1988, as required by the *Economic Council of Canada Act*.

Yours sincerely

Judith Maxwell
Chairman

A Message from the Chairman

The Economic Council of Canada enters its twenty-fifth year with a renewed commitment to generate research ideas and policy advice that will be pertinent for the 1990s.

The Council has much to be proud of. Our work has often served to guide governments and policy leaders in making the difficult choices necessary to achieve Canada's social and economic goals. On page 10, we highlight the key contributions of the six distinguished Canadians who have led the Council since it was founded in 1963.

After refining our strategic plan in 1987/88 (see box), we are more convinced than ever of the value of an organization that can do in-depth analysis of relevant topics and develop pertinent advice for decision makers.

A Changed World Economy

The challenges for economic research in the years ahead are daunting. The world economy has changed in fundamental ways that affect how we conduct our research and the topics that require attention.

A seminal article that describes the extent and manner of this change is the piece by Peter Drucker, called "The changed world economy," which appeared in the spring 1986 issue of *Foreign Affairs*. He began by saying:

The talk is of the "changing world economy." I wish to argue that the world economy is not "changing"; it has already changed – in its foundation and its structure – and in all probability the change is irreversible.

Drucker identified three fundamental changes in the world economy. All are directly relevant to the Canadian economic scene, and all are having an influence on the way in which the Council is setting its research agenda.

The first change is that primary production (of commodities) has become "uncoupled" from industrial production. Canada was once a staple economy based on exports of minerals, lumber, and grain. In the 1980s, we have experienced six years of vigorous economic growth, despite a crippling slump in the Prairie grain economy and a long recession in mineral prices. Clearly, primary products no longer dominate in Canada. In effect, the broad national averages obscure the complex adjustments that are taking place in the resource sector. Yet these adjustments deserve close attention. The Council is nearing completion of an in-depth study of the Prairie grain economy, which will result in a major report in 1988. This project, a reference to the Council by the Prime Minister, is being supported by special funding from the Province of Saskatchewan, Agriculture Canada, the Province of Alberta, the Royal Bank of Canada, Cargill Ltd., and Prairie Pools, Inc.

The second change is that, in the industrial sector, production has become "uncoupled" from employment. It is important to note that 70 per cent of employment in Canada is now in the service sector and that the fastest-growing elements in this sector are the knowledge-intensive services being purchased by business.

At the same time, the steady pressure from technology and import competition is forcing Canadian manufacturers to become more productive. Partly as a result, em-

ployment in the manufacturing sector continues to decline as a share of total employment. But this does not mean manufacturing is disappearing. Output by manufacturers still accounts for about one-fifth of gross domestic product and it remains a key determinant of our export success. Nonetheless, we do need to understand better the linkages between goods production and service production. To what extent are these sectors interdependent? To what extent can services, themselves, be traded internationally, and thus be required to meet the tests of the global marketplace? The Council has chosen to focus its attention on questions of job quality, stability, and growth in the service sector, as well as on the linkages between goods production and service production. We plan to report on these questions in 1989.

The third change is that international capital movements, rather than trade, have become the driving force of the world economy. Capital and trade flows have not been decoupled, but the linkages are looser than they used to be. All Canadians are more aware of the importance of developments in the international capital markets since the shock of the stock market decline in October 1987. Certainly, Canada's financial markets are becoming more closely integrated with those of the United States, Europe, and the Far East. Our work on international finance is aimed at gaining a better understanding of these developments and at interpreting their implications for the functioning of capital markets here in Canada.

Interdependence

One of the common themes that cuts across all these changes is the increased interdependence of nations. As the flows of capital and trade in goods and services weave tighter and more complex economic relationships, we can see emerging a growing international specialization – with high-income countries, like Canada, being pushed by competition from newly industrialized countries into more knowledge-intensive and higher-value-added forms of production. At the same time, economists are beginning to recognize that, as Drucker says, “economic dynamics have decisively shifted from the national economy to the world economy.”

The difficulty is that citizens and governments are not accustomed to thinking in the global integrated context. Similarly, many economists are not likely to look to other disciplines to help analyse the complex issues of our day. We must be more open to the insights of political science, sociology, demography, geography, and even the physical sciences.

The policy levers that governments are accustomed to working with are primarily limited to a national economy. To extend our horizons and obtain a better understanding of the implications of the global economic and political trends for Canada, the Council has launched an ambitious project called “Visions of Canada in the Year 2000.” For this project, we are asking a number of outstanding scholars to prepare papers for a conference to be held in late November.

The proceedings will be published in 1989, and the ideas generated by the conference will provide the foundation for new research projects to be launched in subsequent years.

Adjustment

The Council is deeply concerned about the stresses in the global economy that are arising from such structural changes as the shift in economic power to the Pacific Rim, the emergence of new technology, and changes in the way in which we organize production and trade. These, in turn, are reflected every day in challenges for the Canadian community – for individuals and for firms.

Evidence of these pressures at work in Canadian society often provokes resistance. Firms demand protection against competition, individuals demand support from the state, the frustration associated with dependency on transfer payments builds up; and certain disadvantaged groups in society find it increasingly difficult to find gainful employment. Three research projects have been launched in an effort to generate ideas that will help us to cope with these pressures constructively and equitably. These projects on social policy, on regional development, and on unemployment issues are described in more detail on page 17.

At the same time, much of our work focuses on the capacity of the Canadian community to adjust to all these irreversible changes. So far, our research results bear witness to the fact that, despite the resistance to change noted above, Canadians are

remarkably adaptable. The Council Statement entitled *Managing Adjustment*, released in March, shows the frequency of permanent job changes in the manufacturing sector and of the entry, exit, growth, and decline of firms in that sector. This mobility is the trademark of a dynamic economy.

In our work on technology, we have become aware of the important changes that are taking place in the workplace, as management and employees develop new concepts of job design and new approaches to organizing work, in order to make the best use of new technologies. We also note the growing importance of smaller firms, working on their own or in alliance with larger, multinational firms.

Finally, we note remarkable changes in the internal dynamics of provincial and subprovincial regions of the country. Ten years ago, the Quebec economy appeared to be stagnating as a result of weak competitiveness and an uncertain political situation. Many Quebecers, however, have shaken off their preoccupation with political status, and most of their energy is now focused on internally generated economic growth. As a result, other provinces are now studying the reasons for Quebec's turnaround.

The Council's Challenge

There are, therefore, three important lessons to be drawn from the changes in the world economy. First, the Council must be informed about what is going on in the global scene.

This we do on a regular basis, through monitoring by the Performance and Outlook group. This year, we are building a better knowledge base on the developing and newly industrialized countries.

We must also be aware of the constraints imposed on action by national governments as a result of increased interdependence of nations. The capacity of governments to use the big levers of fiscal, monetary, and exchange-rate policies to meet domestic objectives has been eroded over the past decade. This means that policy advisers, like the Council, must begin to elaborate alternative approaches to meeting the domestic-policy goals of regionally balanced growth and rising living standards.

A third lesson is that in order to truly understand what is going on in the economic system and how Canadians are adapting to their changed environment, we must study events at the micro level. This requires an important change in methodology for the Council. Increasingly, we are compelled to make use of case studies of real world events, as supplements to – or, in some cases, substitutes for – the more traditional analysis of large blocks of data.

In adjusting our methods to take account of the changed economy, we shall continue to use the established concepts and tests of economics, but we must be more cautious about extrapolating on the basis of past trends. The risks of abrupt changes

in economic trends have clearly increased, because the system is more complex and more open to global shocks.

While I have described the challenges for the years ahead as daunting, they serve also as a stimulus for

Strategic plan

We are the Economic Council of Canada – a Canadian institution with unique trademarks. We provide pertinent advice to decision makers based on expert analysis and consultation. We inform Canadians on the key economic issues facing the country. We strive for consensus – agreement among our members on the policy advice we present to decision makers. We maintain a critical mass of bilingual expertise in economic analysis.

Our mission is to contribute to the well-being of Canada and Canadians by providing decision makers with expert analysis and pertinent advice on national and regional economic issues. In doing so, the Council fosters the common understanding and resolution of issues important to Canada and Canadians.

Over the past 25 years, Council members and Council staff have worked hard to build a reputation for excellence in research. These standards must be maintained and even enhanced in the years ahead. But other qualities are required as well if the Council is to succeed in the changed world economy.

The sheer pace of change has reduced the time available for any of us to look at any specific issue. If we are to offer timely advice, the Council must speed up.

This is also a time when the Council must communicate simply and concisely to the decision makers and citizens who particularly need the information. With the information overload, decision makers have less time than ever to spend on any single issue. If the Council's messages are to be heard and understood, the Council must turn outward. It must invest more energy in the communication process.

Finally, the Council must diversify the array of research topics it addresses at any given time, in order to meet the diverse needs of its key client groups – decision makers in government and in the private sector. The Council must also adopt new research methods and borrow appropriate concepts from other disciplines, in order to be able to handle the complexity of the issues that will be of greatest concern to Canadians in the years ahead.

One way to achieve this diversity will be to pursue an increased number of joint ventures with other research organizations whose expertise complements that of the Council and to encourage governments to refer matters of urgent concern to the Council.

us at the Council to seek constantly to upgrade our skills and standards of professionalism. In this way, we will be able to provide objective analysis and sound advice to Canadians on the issues that lie ahead.

Members of the Economic Council of Canada

The Chairman and two Deputy Chairmen of the Economic Council are Governor-in-Council appointments and are responsible for the management of a staff of economists and other specialists. They are also members of the board. There are, in addition, up to 25 other Council board members, appointed by the Prime Minister. These members represent various sectors of Canadian society and regions of the country. They receive no salary or honorarium, although their expenses are covered by the Economic Council.

Council members meet four to five times yearly to discuss Council concerns and to take part in selecting research topics, reviewing research results, and developing policy advice for governments and the public. As well, they serve on advisory committees for Council research projects, together with outside experts in the particular field under study. This involvement gives pragmatic guidance to the research and facilitates the development of consensus among Council members in fashioning the final Statement or Report. Members of the Council are:

Judith Maxwell
Chairman

Harvey Lazar
Deputy Chairman and
Director of Council

Caroline Pestieau
Deputy Chairman and
Director of Council

Miller H. Ayre
President and Chief Executive Officer
Ayre's Limited
St. John's, Newfoundland

Diane Bellemare
Professor
Université du Québec à Montréal
Montréal

Jalynn H. Bennett
Corporate Development
Vice President
The Manufacturers Life Insurance
Company
Toronto

Jacques Bougie
President
Alcan Enterprises
Montréal

Martin I. Chernin
Vice President
Pearl Realty Company Limited
Sydney, Nova Scotia

Dian Cohen
President
Cohen Couture Associates
Montréal

Pierre Fortin
Professor
Department of Economics
Université Laval
Ste-Foy

Alix Granger
Vice President
Pemberton, Houston,
Willoughby, Inc.
Vancouver

Yves Guérard
President
Groupe Sobeco Inc.
Montréal

Chester A. Johnson
Chairman and
Chief Executive Officer
Western Pulp Inc.
Vancouver

Kalmen Kaplansky
Former Director
Canadian Branch Office
International Labour Organization
Ottawa

George A. Key
Businessman
Summerside, P.E.I.

Raymond Koskie
Koskie & Minsky
Barristers and Solicitors
Toronto

Michel Latraverse
President
Willco Industries Corp.
Montréal

William Mackness
Dean, Faculty of Management
University of Manitoba
Winnipeg

Raymond J. Nelson
President
Nelson Lumber Co. Ltd.
Lloydminster, Alberta

Constantine E. Passaris
Professor
Department of Economics
University of New Brunswick
Fredericton

Bartlett B. Rombough
President and Chief Executive Officer
PanCanadian Petroleum Limited
Calgary

Steve A. Stavro

President
Knob Hill Farms Ltd.
Scarborough

Ken W. Stickland

President
KenAgra Management Services Ltd.
Edmonton

Susan A. Thompson

President and General Manager
The Birt Saddlery Co. (1980) Ltd.
Winnipeg

Norman E. Wale

Vice-President
Investor and Industry Relations
Canadian Pacific Limited
Montréal

H. Graham Wilson

Vice-President and Secretary
Dofasco Inc.
Hamilton

Membership Changes

During the year ending March 31, 1988, several changes in membership took place:

One member resigned:

Chaviva Hosek (September 24, 1987)

The term of one member expired:

Philip C. Barter (June 1, 1987)

The following members were appointed:

Jacques Bougie (May 15, 1987)
Norman E. Wale (May 15, 1987)
William Mackness (May 29, 1987)
Bartlett B. Rombough (May 29, 1987)
Alix Granger (June 1, 1987)
Harvey Lazar (July 9, 1987)
Ken W. Stickland (July 9, 1987)

The following members were reappointed:

Diane Bellemare (June 9, 1987)
Yves Guérard (June 21, 1987)

New appointment

Dr. Harvey Lazar, Deputy Chairman and Director of Council, was appointed to the Economic Council in July of 1987. Prior to this appointment, he was the Administrator of the Petroleum Incentives Administration, Department of Energy, Mines and Resources Canada. He had previously held senior positions in that department and had worked in a number of key policy-oriented posts at the Department of Finance, the former Department of Industry, Trade and Commerce, the Foreign Investment Review Agency, and Treasury Board Secretariat. Dr. Lazar obtained a master's degree in political science in 1963, after completing undergraduate studies in chemistry and physiology. He received his doctorate in political economy from the London School of Economics in 1975.

The First Twenty-Five Years

It was on August 2, 1963, that Parliament unanimously passed the Act that formally ushered the Economic Council into being.

Almost a quarter of a century and seven chairmen later, the Council has earned a reputation for excellence in fulfilling its mandate to "advise and recommend" how best Canada can achieve such goals as "a high and consistent rate of economic growth" and "rising living standards (for all Canadians)."

The years preceding the founding of the Council were fraught with uncertainty and concern about slow economic growth. The late 1950s and early 1960s saw a virtual cessation of increase in the real living standards of most Canadians, high rates of unemployment, under-utilization of the country's productive capacity, and some slippage in the country's productivity and competitiveness in relation to other countries. It was clear to many that continuing to react to these problems in an ad hoc, short-term fashion would lead to a continuation, or even an intensification, of the country's economic woes. Hence much of the discussion that led to the creation of the Council centred on the need for medium-range study and economic analysis.

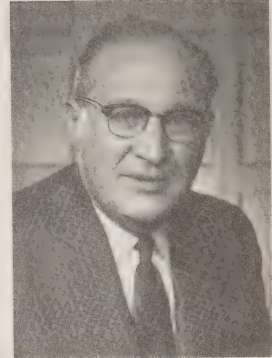
The Early Years

From the beginning, the Council was intended to be an independent non-partisan research body that would study the medium-term economic issues and that would issue

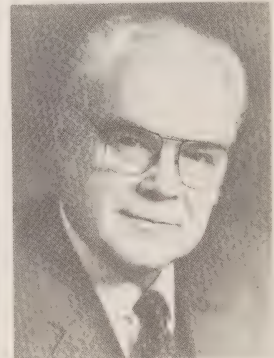
recommendations based on a consensus of Council members. Its policy advice was to focus on five main policy goals: the encouragement of full employment; a high rate of economic growth; reasonable stability of prices; a viable balance of payments; and an equitable distribution of rising incomes among individuals and regions.

Breaking Ground

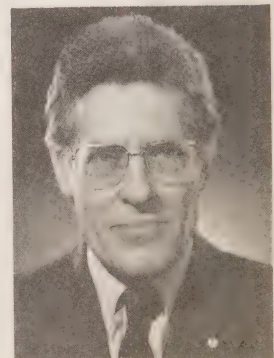
Under the guidance of John Deutsch, the Council's first Chairman (1963-67), much of the early research work at the Council broke new ground. Council researchers were the first in Canada, for example, to experiment with potential output analysis techniques that had only begun to be used by academics in the United States. By comparing actual output with potential output, economists could arrive at some idea of the effectiveness of a country's economic policies. Other groundbreaking work pioneered by the Council at that time included an examination of the relationship between education and productivity. In 1966, the Council received the first of many government references (contract research requested by the Prime Minister). That first reference dealt with the relationship of prices, costs, productivity, and incomes to sustained economic growth. It, together with another reference that looked at consumer affairs, competition policy, and intellectual property, had a major impact on the structure of government. Among other things, for example, these references highlighted



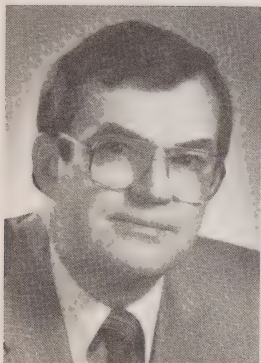
John Deutsch



Arthur Smith



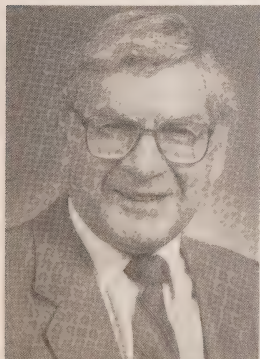
André Raynauld



George Post



Sylvia Ostry



David Slater

the need to rationalize government programs in such areas as manpower and employment, regional expansion, and consumer and corporate affairs.

At least two important events stand out during the chairmanship of Arthur Smith (1967-71): the Council began developing the original version of its CANDIDE econometric model of the Canadian economy; and the Council confirmed its independent stance. In regard to the latter, many Council documents reflected this independent turn of mind by taking positions critical of the government. In the Council's view, for instance, the government at that time should have been using its stabilization policies less frequently and with an eye to increasing medium-term or long-term potential growth.

Research Excellence

Council Chairman André Raynauld (1971-76) brought about a change in emphasis from the policy orientation that had characterized the previous two administrations to an accentuation of researchers' technical skills. In this regard, the Council scored a major success with the completion of its CANDIDE econometric model. It was now possible to show in detailed quantitative terms the consequences of the Council's policy recommendations. This was particularly important, since the Council's five main policy goals were thought by some to be mutually exclusive. (It can be argued, for example, that efforts to fight inflation can cause

unemployment. CANDIDE enabled economists to see the effects of policy prescriptions on all of the Council's policy goals.) CANDIDE was an innovation in Canadian economics. The two other models that existed at the time were specialized and were designed to model special problems. CANDIDE, however, was a multipurpose model designed to fulfil many goals at the same time.

Raynauld also placed greater emphasis on consultation. Under his stewardship, the Council organized two national economic conferences that brought together leaders in all sectors of the Canadian economy and society to discuss major issues affecting the economy. Unfortunately – and ironically – it was at that time that labour representatives on the Council walked out over the government's wage and price controls. The walkout was part of a general withdrawal of trade union representatives from many government bodies.

Internally, Raynauld reorganized the Council by introducing project teams, each with a specific mandate. The restructuring resulted in improved productivity and project control, and better use of the Chairman's time.

As a footnote to that period, it is worth noting that the Council recommended free trade with the United States. At that time the suggestion received a chilly reception in the business community.

George Post (1976-77) served as the Council's Vice-Chairman and Director prior to being appointed Acting Chairman for a year and a half. Under his guidance, the Council issued several influential reports. Its project on financial markets led to the publication of, among other reports,

Efficiency and Regulation: A Study of Deposit Institutions. The study called for greater competition in Canadian financial markets, and many of the recommendations in it were reflected in the 1980 revision of the *Bank Act*. In 1977, the Council published *Living Together: A Study of Regional Disparities*, which has been reprinted four times over the past decade.

Higher Profile

Sylvia Ostry was appointed Chairman in 1977. In her two years with the Council she was successful in raising its profile by increasing support for the Council's work. During her tenure, for example, the Council received three references from the Prime Minister. Only three had been given prior to that.

In 1980, David Slater, then a Director at the Council, was appointed Chairman. With his appointment, the Council once again took on a more technical orientation. Meanwhile, the Canadian economy was being hit by a number of serious shocks. High unemployment, high interest rates, high inflation, and the collapse of the western Canadian energy-based economy were among the country's economic woes. The ferocity of these problems led to more and more demands on the Council to concern itself less with the longer term and more with short-term solutions to these critical problems. The Council undertook a number of projects in such areas as energy; women and the economy; productivity; taxation; and a special report on the western Canadian economy.

Diversification

The appointment of Judith Maxwell as Chairman in 1985 marked the beginning of the present period of the Council's history. Over the past two years the Council has undergone a number of changes. In its research work, there is a more pragmatic policy orientation, faster throughput of work, and a greater diversity of projects under way at one time. The output of the Council has increased dramatically as well. Whereas in earlier years it produced an Annual Review of the economy, along with several other reports, last year the Council published the Annual Review, two Statements, and two research reports, in addition to the regular flow of research studies and discussion papers. It is also putting more weight on communicating its research through speeches, seminars, conferences, media relations, and frequent appearances before parliamentary committees.

In part, these changes reflect the changing environment in which the Council operates. Increasingly, for example, economists are incorporating into their work techniques from such disciplines as sociology and political science. The Council is broadening its focus accordingly, employing experts in fields other than economics. As it responds to continuing changes in the environment, it is certain that the challenges facing the Council over the next 25 years will be as exciting as those which were part of its first quarter-century.



Judith Maxwell

Research Activities

The Council usually determines which topics will be researched and analysed. (On occasion the Prime Minister refers subjects to the Council for study.) Work is then carried out by various research teams, which are composed of professional staff with training in economics and related disciplines. Consultants with specialized knowledge may be included in the research teams.

The scope and time frame for research initiatives are designed to

generate reports within 18 to 24 months. Usually these results are published in the form of a Council Statement and a separate Research Report. The Statement – which provides a summary of the research results and the Council's recommendations – represents the views of Council members. It is shorter, more succinct, and less technical than its companion Research Report, written by Council staff, which provides the technical information important to experts in the field of study.

In addition, the Council publishes research studies (designed for a wide, general audience); technical reports and discussion papers (designed for experts in the field); and, on occasion, the proceedings of conferences, all under the responsibility of the individual authors.

This year the Council published its Annual Review of the economy, two Statements, and two Research Reports, described below (in addition to six research studies, the proceedings of a colloquium, and 18 discussion papers).



Twenty-Fourth Annual Review: Reaching Outward

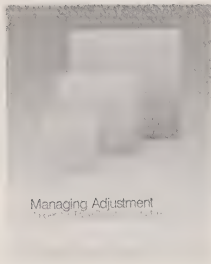
Canada has legitimate grounds for pursuing its own cultural and social policies, as well as regional and industrial development, under a free-trade deal with the United States, the Council concluded in its Twenty-Fourth Annual Review of the economy, *Reaching Outward*.

The Council said that the negotiation of a trade agreement with the United States is a major turning point in Canadian history. If the accord is implemented, it will require major adjustments, but it also promises sustained benefits. If no trade deal occurs, Canadians will have to rethink seriously their approach to

commercial policy and international diplomacy.

In the Review, the Council looked at a number of important structural changes that will influence Canada's long-term economic performance, including the globalization of markets, the potential impact of a Canada-U.S. trade agreement, and some of the issues that should or should not be part of that agreement.

In its medium-term outlook for the economy, included in the Review, the Council projected real economic growth of 2.8 per cent during the 1987-91 period. Investment is expected to be one of the engines of growth during that period. Inflation will average just below 5 per cent. By the end of the decade the unemployment rate is expected to decline to just above 8 per cent.



Managing Adjustment: Policies for Trade-Sensitive Industries

In this Statement, the Council looks at the adjustment of manufacturing firms and workers to changes in the marketplace, particularly the impact of growing international competition and trade liberalization. The Council presents considerable new evidence on the adjustment responses of

Canadian and foreign-owned firms; on the mobility of workers; and on the impact of change in “trade-sensitive industries” – those which have received sector-specific government assistance because of the pressures of international competition. The Council also puts forward recommendations for governments on how best to help workers and industries manage the adjustment process.



Making Technology Work: Innovation and Jobs in Canada

In this Statement, the Council examines how technological change affects employment and income, and its impact on various groups such as women, young people, older workers, and the disabled. It identifies the technologies that have been introduced and the kinds of firms that

innovate. It also examines the management of innovation within firms and its impact on Canada’s industrial relations system. As well, the Council puts forward a strategy to encourage rapid technological advance and to minimize the costs of labour market adjustment. A Research Report providing the detailed analytical findings to support this Statement was also published under the title *Innovation and Jobs in Canada*.



The Taxation of Savings and Investment

Canada’s tax system embodies a mixture of annual taxes on personal and corporate income, taxes on expenditures, payroll taxes, and taxes on property. This Research Report

shows that the current system impairs the rate of capital formation and encourages investments that hinder the economy from performing at its potential. It provides the detailed analytical findings that support the Council Statement entitled *Road Map for Tax Reform*, published in February 1987.

Ongoing Research

Twenty-Fifth Annual Review

This year the Council's Annual Review of the economy will depart somewhat from the traditional format. It will contain the usual analysis of the present economic scene and develop medium-term projections under various favourable and unfavourable assumptions regarding the external environment; but it will also discuss the implications of international financial and trade developments, consider issues in the service sector, reconsider the effect of unemployment on the inflation rate, and examine various aspects of regional development.

In addition, the Review will take a more detailed, longer view and discuss some of the important world-wide developments in the fields of demography, environment, science, technology, economics, and geopolitics. It will consider the impact of developments in these areas on the Canadian economy in general and on Canada's human resources in particular. As well, the Review will raise questions about economic decision making and the role of economics and economic advisors.

Trade-Policy Options and Structural Adjustment

As part of this project, the Council simulated the effect of a free-trade agreement with the United States on output, employment, and incomes in Canada. (Much of this work was summarized in the Council Statement

entitled *Venturing Forth: An Assessment of the Canada-U.S. Trade Agreement*, which was published in April 1988.)

The project also involves projecting the impact of the tariff and nontariff cuts that are being phased in over the next few years within the framework of the General Agreement on Tariffs and Trade (GATT), as well as the impact of further cuts following the next round of GATT negotiations. In particular, the project studies the process and speed of industrial adjustment in Canada by estimating the output and employment effects of trade liberalization, both by province and by industrial sector. The data derived from this project will be valuable in assessing the kind of industrial adjustment policies that might be needed in the future and will also help Canada to design better bargaining strategies before entering into trade negotiations with other countries.

International Finance

In recent years, the internationalization of capital markets has accelerated; cross-border trade in financial services has intensified; the establishment of foreign financial firms in domestic markets has increased; and new financial instruments and processes aimed at increasing the breadth of markets or at improving the management of risks have appeared and grown in importance. These developments have affected the stability of the international financial system – sometimes in a positive fashion, at other times in a negative way.

The objective of this project is to document these developments, explain the factors behind them, and assess the position of Canada relative to other countries. The project looks at the impact of these developments on the economy as a whole, on financial institutions and the users of financial services, and on the conduct of industrial, monetary, and fiscal policies. The project will also examine the effects of these developments on the stability of the international financial system and on the need to harmonize financial regulation and to coordinate macro-policies among countries.

The Future of the Prairie Grain Economy

Prairie agriculture is a key sector of the Canadian economy. But in recent years Prairie grain yields have been cut by drought and grasshopper infestation. A heavy load of debt has added to farm expenditures, and farm incomes have declined because of a sharp drop in international grain prices. Prairie farms are caught in a severe cost/price squeeze.

The broad objective of this project (which was referred to the Council by the Prime Minister) is to examine the factors that have shaped the Prairie farm situation and those which will influence its future, and to show how these developments can be integrated with policy choices. In particular, the project will examine how farm policies in major grain-importing and -exporting countries have affected global markets; whether the excess supplies of today are a short-term aberration or a long-term trend; whether Canada's traditional grain

markets are fading and whether there is a need to diversify into markets of the newly developing countries; and how much of the change in farm income over the past decade or two has resulted from changes in grain prices and how much, from yield technology. In addition, the project will include an examination of farm income, of farm costs and rural/urban adjustment trends, and of the potential for greater diversification into livestock production and marketing. Finally, the Council will review existing federal and provincial grain policies and recommend policy options for the future development of the Prairie grain economy.

Performance and Outlook

The Performance and Outlook Group is responsible for assessing the impact of the Council's macro-policy advice and for monitoring national and international economic developments. It carries out economic simulations using computer models to determine the impact of the Council's policy prescriptions and the effects of various economic developments, such as changes in fiscal, monetary, or trade policy; an increase in interest rates; or the impact of federal and provincial budgets. It will also provide the medium-term outlook for the economy in the Council's Twenty-Fifth Annual Review.

With respect to the Review, the Group will undertake a review of Council targets, including those for real growth; the rate of inflation; the current account; the federal deficit; and, in particular, the unemployment rate. In the case of the latter, separate studies will look in detail at the

cyclical and structural factors that have influenced unemployment rates in the past.

For the project entitled "Visions of Canada in the Year 2000" (described later on), the Group is developing a long-term population projection model for use in assessing social, economic, and demographic impacts in the early part of the next century.

Employment and the Service Economy

The service sector now accounts for about 70 per cent of all jobs in Canada, compared with just over 40 per cent as recently as 1950. The shift from goods-producing to service industries has raised a number of analytical and policy-oriented issues regarding the operation of the Canadian labour market. The employment issues arising from the changing industrial structure provide the focus for this project. It will examine the rapid expansion in service-sector employment and assess the limits to future growth. A major aspect of the research involves examining the quality of the employment being created in the emerging service economy. This analysis focuses on wages, skills, and the stability of the new service jobs. Special attention is devoted to the quality of female employment.

Other aspects of the project include trends in service-sector productivity, technology, and trade, as well as occupational projections, unemployment dynamics in service industries, and service-sector unionism. The impact of industrial restructuring on the formation of human capital is also being studied.

Visions of Canada in the Year 2000

The Council is celebrating its twenty-fifth anniversary in part by commissioning a series of papers by outstanding Canadian and foreign experts. The papers will be presented at a conference planned for late 1988. The Council will publish the papers, the discussants' comments, and a summary of the general discussion in the form of a proceedings volume.

The papers being commissioned by the Council fall under four broad headings. The first group will discuss the world environment from the point of view of demography, science and technology, environmental issues, the global political setting, and the world economy. The second group will deal with Canada's economic problems within the world economy, emphasizing the growing interdependence of the Canadian economy with the outside world, the importance of competitiveness and the changing industrial structure, and the income-distribution issues arising from these developments. The third group will concentrate on the human dimensions of economic problems – in particular, the questions of unemployment, adjustment problems as a result of sectoral shifts and technological change, and the role of education. Finally, the fourth set of papers will discuss the framework for economic policy, the role of consensus in economic performance, the problems of economic decision making, and possible shortcomings in the discipline of economics as it relates to public-policy formulation.

Directions for Regional Development

Canada has made a major commitment over the past 25 years, but policies in that area are now in disarray. This project will explore the key ingredients of success in the rebirth of certain communities across Canada that have managed to overcome the trend toward economic stagnation.

The project will differ from the Council's traditional approach to research in three ways: the information will primarily be qualitative instead of quantitative; most of the work will be carried out in the regions, under the supervision of four regional advisors; and its focus will emerge from a process of consultation with key stakeholders. The consultations will generate information about past successes and failures with respect to regional development; specific case studies of important new developments over the past decade; and guidelines for future regional development policies.

Social Policy

The 1980s have sparked a major rethinking of Canada's social programs and policies. Over the past five years, proposals for reform have come from royal commissions, social action groups, and various research institutions. The continued need for fiscal restraint and the trend toward trade liberalization in a highly competitive global environment make economic efficiency essential to continued growth and prosperity. In light of these circumstances, social

reform must focus on the development of programs and policies that minimize economic costs and at the same time strive to achieve social-equity objectives that will effectively meet the changing needs of Canadians.

The Council will study the equity/efficiency debate by examining Canada's tax-transfer system at both the federal and provincial levels with regard to its effectiveness in meeting the economic needs of Canadians and to its implications for work incentives. To gain a better understanding of the needs of Canadians, the Council is also studying the characteristics and causes of poverty. An integral part of this research will entail developing measures of income dynamics to explain better the movements in and out of poverty and welfare dependency. The results of these streams of research will be used to develop a framework for designing and analysing policy options.

Unemployment Issues

Unemployment threatens to become the major policy issue of the 1990s. Persistently high levels of unemployment are a major concern among Canadians. The Canadian unemployment rate has averaged about 9.8 per cent throughout the 1980s, which is significantly higher than rates in the 1960s and 1970s. This project will involve a systematic analytical assessment of the occurrence and persistence of unusually high unemployment rates.

The analysis will focus on both the macro and micro aspects of unemployment. The research is divided into four major segments: an analysis of normal rates of unemployment in Canada and its regions; the cyclical fluctuations in the Canadian labour market; the dynamics of the Canadian labour market, particularly the dynamics of unemployment and the incidence of long-term unemployment; and the impact of wages on unemployment, including the possibility of unemployment caused by high real wages. The research will also examine the issue of wage flexibility and its impact on output, employment, and unemployment. The project also includes two background papers (a historical evaluation of unemployment issues, and a review of the commitment to full-employment objectives).

The outcome of this research will shed some light on the prospects for achieving lower levels of unemployment in the future, on the causes and implications of the dramatic variations in regional unemployment, and on the impact of sectoral shifts and other structural changes on unemployment rates. Finally, the project will generate a knowledge base that will stimulate informed debate on policy issues relating to unemployment in Canada.

Explorations

The Explorations Group is charged with developing issue papers and supervising small projects that may or may not involve consensus reports.

Consultative and Advisory Activities

The Council spends a great deal of time giving, and seeking, advice – a key aspect of its work. Consequently, the Chairman and two Deputy Chairmen meet frequently with political, business, labour, academic, and other groups across the country.

In 1987/88, the Chairman continued the procedure of providing briefings for relevant policy makers and other key groups in advance of the release of Council Statements and Research Reports. In addition, the Council was regularly invited to express its views to a wide variety of organizations and interests.

This year, the Chairman also addressed a Cabinet committee with regard to the Council's recent research on adjustment policies for trade-sensitive industries. She appeared before the House of Commons Standing Committee on Finance and Economic Affairs to discuss the Council's main estimates, the Council's views on tax reform, and the

country's medium-term outlook in the Committee's pre-budget hearings. She also appeared before the Senate Committee on Agriculture and Forestry to give an overview of the Council's work in progress on Prairie agriculture, as well as before the Senate Committee on Banking, Trade and Commerce to discuss bills for the reform of financial regulation in Canada, and the government's proposed tax-reform measures.

Throughout the year, the Chairman and the two Deputy Chairmen consulted with numerous senior provincial officials and ministers, as well as with prominent Canadians in the private sector and the academic community. The Chairman also consulted with leading representatives of Canadian labour unions and with groups actively involved in research on technology and other issues.

The Council has also participated in the Economic Research Group – a body of chief executives from Canada's 18 economic and policy research institutions. It provided a secretariat function in support of that group.

To keep Canadians informed about Council activities, the Chairman delivered a number of keynote speeches during the year to: the Corporate Higher Education Forum; the Canadian Payments Association Conference; the Canadian Chamber of Commerce; the Halifax Business Conference; the International Federation of Associations of Business Economists; the Canadian Teachers' Federation; and the National Advisory Board on Science and Technology.

On the international stage, the Chairman held discussions with members of the Organisation for Economic Co-operation and Development and the International Monetary Fund, and addressed the Americas Society in New York.

Information and Communications

Information is crucial to any meaningful debate on economic issues and policy options. In recent years, the Council has placed increasing emphasis on this aspect of its mandate, through a variety of initiatives. It publishes a wide range of reports on relevant and important economic concerns; its senior management advises, and consults with, representatives from the public and private sectors across the country; and its media and public relations specialists are in constant contact with colleagues and institutions in order to draw attention to the Council as a source of up-to-date information on economic issues. This year, the Council also formalized a strategic planning and external relations function, whereby professional staff monitor the external environment and provide input to the planning of the Council's research agenda.

Publications

Council reports, reflecting the views of Council members, and

Council research studies, which are the responsibility of their authors, are published in both official languages and are available by mail order and in bookstores across the country.

In addition, the Council publishes discussion papers, which are available free of charge in the language of the author who is responsible for the views expressed therein.

The Council also publishes a quarterly magazine, *Au Courant*, which reaches a wide, general audience of over 40,000 readers. *Au Courant* is used by the Economic Council to inform Canadians about its ongoing research and to market its publications. In May 1987, *Au Courant* received three awards from the Ottawa chapter of the International Association of Business Communicators (one for writing, one for design, and one for the overall magazine).

Conferences and Seminars

The Council holds seminars on a variety of research-related topics at regular intervals. Experts in various

fields, from government, universities, and the private sector, frequently present their views at these seminars. In addition, the Council periodically sponsors, or is a contributor to, conferences pertaining to its research expertise.

Conference on Agriculture

A Conference on the Future of Prairie Agriculture, sponsored by the University of Saskatchewan and supported by the Economic Council, was held in Saskatoon, March 21-22, 1988. The conference highlighted original research that is being undertaken by the Council as part of its project on the Future of Prairie Agriculture. It was held to provide new information to farming organizations and to others with a stake in the Prairie economy; to get feedback on the research findings of the Council project; and to provide input to the policy recommendations that will be drawn up by the Council.

Administrative and Technical Services

Finance, Administration, and Personnel

The Finance and Administration Group and the Personnel Services Group provide the necessary administrative support for the Council's senior management, research staff, and other service groups. They ensure that the Council's policies and procedures relating to finance, administration, and personnel activities comply with government regulations and directives; assist in the development of budgets based on expected output over the short to medium term; and provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources. In each of these tasks, they require continual information from other Council groups, together with direction and final approval from the Senior Management Committee.

The Council Library

The Council Library exists primarily for the use of the Council staff but is also open to the public (under the terms of the *Access to Information Act*). It contains some 30,000 books, docu-

ments, reference works, and periodicals relating to economics, finance, social sciences, and statistics. The Library is represented on the Council of Federal Libraries, as well as being a member of the Canadian Library Association and of the Special Library Association. It is also a depository library for certain federal government publications.

Automation continued to be an important thrust of library activities over the past year. The catalogue entries of all library documents published after 1976 are now available on-line. The acquisitions, check-in, routing, claiming, and bibliographic listing of serials are now being automated. The library's reference service area has acquired new on-line reference datatypes and is making Council staff more familiar with the library's increased capacity to serve them with these automated tools. These tools can be used to answer particular questions or, on a long-term basis, to develop subject expertise. The library expects to be fully automated by the end of the 1988/89 fiscal year.

Informatics

The Informatics Group is responsible for data acquisition, verification,

and manipulation; scientific and administrative programming; computing services in support of research groups; and other activities.

This year, the purchase of an in-house minicomputer reduced substantially the Council's requirements for private-sector computer services. The Council also acquired several microcomputers, the majority of which went to researchers. The Council's in-house minicomputer also provides a network for many of the microcomputers, providing them with access to a large central memory, as well as to high-speed and laser printers. Office automation functions, such as electronic mail, are now available to many staff members. A conversion of the Council's word processing system from clusters of eight workstations to dedicated microcomputers is taking place as well. This will provide full text integration between word processing equipment and the computers used by Council staff.

Fiscal year 1988/89 will see greater use of microcomputers and of the new in-house minicomputer to perform all of the Council's automated activities. The sharing of data, text, and peripherals among staff will be simplified and more integrated.

Senior Management

Chairman

Judith Maxwell

**Deputy Chairman and
Director of Council**

Harvey Lazar

**Deputy Chairman and
Director of Council**

Caroline Pestieau

Corporate Secretary

Warren H. Maidens

Senior Policy Advisor

Robert A. Jenness

Group Directors:

**Twenty-Fifth Annual Review; and
Visions of Canada in the Year 2000**

K. Newton

Explorations

R. A. Jenness

Performance and Outlook

R. S. Preston

**Labour Market Impacts of
Technological Change**

K. Newton

International Finance

A. Ryba

Manufacturing Firm Adjustment

P. Gorecki

**Trade-Policy Options and
Structural Adjustment**

S. Magun

Social Policy

B. Powell

Regional Development

D. Brodhead

**The Future of the
Prairie Grain Economy**

A. Schmitz/L. Auer

Publications

J. Fortin

**Strategic Planning and
External Relations**

W. Pullen

Finance and Administration

R. Woods

Informatics

A. Bourdon



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1988. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the results of operations of the Council for the year ended March 31, 1988, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "D.L. Meyers".

D.L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 24, 1988

Economic Council of Canada

Statement of Operations for the year ended March 31, 1988

| Expenditure | 1988 | 1987 |
|---|---------------------------|---------------------------|
| Operations | | |
| Salaries and employee benefits | \$5,774,562 | \$5,750,076 |
| Accommodation | 734,825 | 833,322 |
| Professional and special services | 731,685 | 793,214 |
| Office furniture and equipment | 263,506 | 239,206 |
| Office stationery and supplies | 225,499 | 185,204 |
| Communications | 207,340 | 194,652 |
| Publicity, publication of reports and studies | 202,901 | 217,323 |
| Travel and removal | 171,561 | 128,232 |
| Rental of equipment | 160,267 | 56,600 |
| Repair of office furniture and equipment | 34,995 | 31,337 |
| Renovations | 17,258 | 30,931 |
| Miscellaneous | 14,602 | 9,558 |
| | <u>8,539,001</u> | <u>8,469,655</u> |
| Administration | | |
| Salaries and employee benefits | 742,716 | 683,953 |
| Executive Council expenditures | 367,424 | 281,970 |
| Employee termination benefits | 175,587 | 158,500 |
| Professional and special services | 146,778 | 107,843 |
| Travel | 23,560 | 29,690 |
| | <u>1,456,065</u> | <u>1,261,956</u> |
| | <u>9,995,066</u> | <u>9,731,611</u> |
| Revenue | | |
| Non-tax revenue | | |
| Refund of previous years' expenditure | 5,362 | 3,959 |
| Miscellaneous | 285,261 | 124 |
| | <u>290,623</u> | <u>4,083</u> |
| Net cost of operations (Note 3) | <u>\$9,704,443</u> | <u>\$9,727,528</u> |

The accompanying notes are an integral part of this statement.

Approved by the Council:



Chairman



Director, Finance and Administration

Economic Council of Canada

Notes to Statement of Operations

March 31, 1988

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government of Canada's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Services provided without charge

Estimates of amounts for services provided without charge by Government departments are included in expenditure.

(d) Refunds of previous years' expenditure

Refunds of previous years' expenditures are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

| | 1988 | 1987 |
|---|--------------------|--------------------|
| Privy Council | | |
| Vote 20 | \$8,464,000 | \$7,992,000 |
| Supplemented by Treasury Board | | |
| Vote 5 | -- | 83,000 |
| | <u>8,464,000</u> | <u>8,075,000</u> |
| Lapsed | 307,759 | 191,839 |
| | <u>8,156,241</u> | <u>7,883,161</u> |
| Statutory contributions to employee benefit plans | 966,000 | 888,000 |
| Total use of appropriations | <u>9,122,241</u> | <u>8,771,161</u> |
| Add: Services provided without charge by | | |
| Government departments | 872,825 | 960,450 |
| Less: Non-tax revenue | 290,623 | 4,083 |
| Net cost of operations | <u>\$9,704,443</u> | <u>\$9,727,528</u> |

Publications of the Economic Council of Canada, 1987/88

Annual Report, 1986/87

Judith Maxwell (EC1/1987E – available free from the Economic Council)

Annual Review

Twenty-Fourth Annual Review:
Reaching Outward, 1987 (EC21-1/1987E; \$6.95 in Canada and \$8.35 in other countries)

Council Statements

Making Technology Work: Innovation and Jobs in Canada
(EC22-142/1987E; \$4.95 in Canada and \$5.95 in other countries)

Managing Adjustment: Policies for Trade-Sensitive Industries
(EC22-150/1988E; \$4.95 in Canada and \$5.95 in other countries)

Research Reports

Innovation and Jobs in Canada
(EC22-141/1987E; \$10.95 in Canada and \$13.15 in other countries)

The Taxation of Savings and Investment
(EC22-143/1987E; \$10.95 in Canada and \$13.15 in other countries)

Conference Proceedings

Aging with Limited Health Resources: Proceedings of a Colloquium Held in Winnipeg
(EC22-139/1987E; \$9.95 in Canada and \$11.95 in other countries)

Research Studies

Canadian Hospital Costs and Productivity
L. Auer, 1987 (EC22-138/1987E; \$8.95 in Canada and \$10.75 in other countries)

Reforming Capital Income Taxation in Canada
J. B. Davies and F. St-Hilaire, 1987 (EC22-140/1987E; \$10.95 in Canada and \$13.15 in other countries)

Workplace Innovation in Canada
J. Mansell, 1987 (EC22-146/1987E; \$4.95 in Canada and \$5.95 in other countries)

Atomic Energy of Canada Limited: The Crown Corporation as Strategist in an Entrepreneurial, Global-Scale Industry
G. Lerner, 1987 (EC22-145/1987E; \$8.95 in Canada and \$10.75 in other countries)

Taxation and Savings in Canada
C. M. Beach, R. W. Boadway, and N. Bruce, 1988 (EC22-144/1987E; \$10.95 in Canada and \$13.15 in other countries)

Petro-Canada: Its Role, Control and Operations
P. Halpern, A. Plourde, and L. Waverman, 1988 (EC22-147/1987E; \$9.95 in Canada and \$11.95 in other countries)

Periodical

Au Courant, Vol. 8, Nos. 1, 2, 3, and 4
(available free from the Economic Council of Canada)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Publications Division, Economic Council of Canada, P. O. Box 527, Ottawa, Ontario, K1P 5V6.

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Economic Council
of Canada

Conseil économique
du Canada

Annual Report

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Minister of Supply and Services Canada, 1989
Cat. No. EC1-1989E
ISBN 0-662-17185-3
Le *Rapport annuel* est aussi disponible en français.



Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 30, 1989

The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1989, as required by the *Economic Council of Canada Act*.

Yours sincerely

Judith Maxwell
Chairman

A Message from the Chairman

If there is one simple fact I have learned in my three and one-half years as Council Chairman, it is the power of well-documented ideas to shape policy decisions and influence public opinion. These ideas come from many sources, one of which is the Economic Council of Canada.

The two primary roles of the Economic Council of Canada are to create knowledge about Canada's economic performance and potential, and to present that knowledge in a way that helps Canadians to understand critical national issues. The particular challenge for the Council and for Canada is that the issues are becoming more divisive, and society in general is more fragmented than it was in the postwar period.

In the 1960s and much of the 1970s, for example, there was a broad social consensus on economic policy goals and strategies. The underpinnings for this consensus lay in a general commitment to high employment and a more comprehensive safety net to support those who were unemployed or unable to work. It was generally believed that the efficiency gains from higher growth were great enough to finance measures that would create an equitable society, though the concept of equity was never formally defined.

That consensus eroded in the later 1970s and in the 1980s for a lot of reasons, some economic and some not. Economic factors such as the disappointment of inflation and stagnation (due in part to commodity price shocks and slackening growth in productivity) shook confidence in Canada's ability to generate steady increases in living standards. Other factors, such as the increased competition from global markets, created new possibilities for growth but at

the expense of radical changes in industrial structure that created personal dislocation for many Canadians and forced them to rethink their approach to industrial policy, regulation, and trade policy.

In the meantime, economists appeared to be preoccupied with disputes between neoclassical and more traditional Keynesian views that held sway in the 1960s – with the result that the economics profession appeared detached from the immediate issues of concern to decision makers.

The combination of industrial restructuring and changing age and family structure has placed new demands on the social safety net. At the same time, the rising debt burdens of governments make it exceedingly difficult to meet the new needs of Canadians – support for single parent families, for example – by simply enriching existing programs. Yet, with so much change going on in their lives already, many Canadians fear that reallocating the funds being used to pay for the safety net may reflect an erosion of the commitment to equity.

Canada has never had a homogeneous society because of the differences in perspective between regions and linguistic groups and between federal and provincial governments. National cohesion has been sorely tested in the 1980s by the shifting economic fortunes of the regions, the increasing importance of issues where provinces have either a shared or a prime jurisdiction (social policy and education), and the emergence of passionate and articulate lobbies for virtually every point of view.

This fragmentation of the public debate makes the choices of government every more fractious and

painful, just at a time when the country needs to be building a new consensus on a whole range of issues. In short, the pressures of slower growth and industrial restructuring, added to the fragmentation of viewpoints, are acting as a barrier to national consensus. This could undermine our ability to solve economic problems.

The Economic Council of Canada, on its own, is in no position to solve this extraordinary dilemma. But it does have an important contribution to make – working through the power of the ideas that flow from our research.

Our research agenda for the next several years will focus on a number of projects that go to the heart of the divisions in Canadian society. I am thinking here of the projects on Employment and the Service Economy, Social Policy, Immigration, Regional Development, and Intergenerational Equity.

- What approach should Canada take to immigration when the natural growth in population is slowing and the ethnic mix in our major cities is changing dramatically?

- Given that global economic trends are twisting the job structure in ways that reduce employment in the resource-based regions and increase it in metropolitan areas, what strategies for labour market policies and for regional development are going to be feasible in the 1990s?

- Given that this new job structure is beginning to reflect a polarization of employment into high-paying and low-paying jobs, what are the consequences for social policy when some members of the employed work force do not earn enough to support a family?

At the same time, of course, the Council must ensure that its research programs are at the leading edge of work assessing the changing world economy and shifting industrial structure. This, we are doing with out work on international trade and competitiveness, where we are placing special emphasis on the countries of the Pacific Rim, and on industrial policy issues here in Canada.

Our role at the Economic Council of Canada will be to identify in an objective way the economic origins of national policy problems, and to put forward, as a result of our own consensus process among Council members, new ways of looking at the issues. We will help to identify the common ground where reasonable people can agree. This combination of research and consensus-building will help to build the knowledge base required for governments to make wise policy choices and for citizens to understand and support those choices.

Creating Knowledge

What do we mean by creating new knowledge? What does the Council actually do?

The Council is first and foremost a source of economic expertise, although we regularly call on related disciplines for help – political science, sociology, geography, history, and so on. But, the Council is not a university where the choice of research topics is driven by the curiosity of the scholar, and where the scholar is usually motivated by a desire to extend the boundaries of economic theory.

Rather, Council research topics are chosen because of their importance to Canadian policy. Council researchers make extensive use of the theory developed at universities and at other research institutes here and abroad. They test the theory to see whether it can be put to work to explain what is going on in Canada. The tests may lead to a change in the theory; they may also provide the information needed to translate the theory into useful insights for policy makers. The Council is therefore striving to extend its knowledge of economics so that we can suggest ways to help society function better. To do this, the Council spends a lot of time collecting data, sorting it, and analysing it. We also have to understand how government programs operate, how regulation and institutions function, and, increasingly, how individuals, firms, factories, or communities have organized themselves to cope with particular problems.

Once that knowledge has been created, the Council must go one more step, asking what the results mean for policy. Given what we have just learned, what advice should we give to governments? Here the work of Council staff is extended and interpreted by our 25 Council members who meet four times a year to review research results and develop their consensus view on the recommendations that flow from the research.

The process of knowledge creation is, in a sense, a spectrum starting with the theory, moving on to research, then to policy analysis, and then moving finally to program design. Of course, there are dynamic interactions back and forth across the spectrum as the new information sheds a different light on both the problem and the

theory. (Curing smallpox, to use a medical analogy, began with a solid piece of basic research, identification of the problem, further applied research, followed by the design of a vaccine, and eventually the design of a delivery program.)

The Council focuses its energy on the applied research and the policy analysis in the middle of the spectrum. Universities, in contrast, are preoccupied with the theory and some of the applied research. At the other end of the spectrum, government departments are preoccupied with program design, although some departments also do some research and a considerable amount of policy analysis.

In short, the knowledge created by Council researchers and the ideas forged by the Council consensus process become an important input to the decision making of governments. We have seen this result flow from a number of recent reports by the Council. For example, our work on the impact of technology on labour markets has become the reference point for advisory councils and federal and provincial officials struggling to come to terms with the pervasive influence of technology on the Canadian work force.

In addition, the detailed analysis of the potential impacts of the Canada-U.S. Trade Agreement has been used by a number of provincial governments as the background to their decisions about programs to help firms and workers adjust to the trade agreement. More recently, the Council report, *Handling the Risks: A Report on the Prairie Grain Economy*, has helped to reshape the public policy debate in Western Canada about the safety net for the farm sector. That debate has shifted from the past em-

phasis on production subsidies to a genuine interest in an income insurance type of system that would cause far fewer distortions in the production and sale of Canadian grains and oilseeds.

The main theme of Council work over the past three and one-half years has been adjustment to the remarkable changes going on in the world economy, and here in Canada. The theme that will guide us through the next several years will be to strike the right balance between equity and efficiency in order to help build a wider measure of cohesion in Canadian society. That will be the special challenge for the Council and for Canada in the 1990s.

Strategic Plan

We are the Economic Council of Canada – a Canadian institution with unique trademarks. We provide pertinent advice to decision makers based on expert analysis and consultation. We inform Canadians on the key economic issues facing the country. We strive for consensus – agreement among our members on the policy advice we present to decision makers. We maintain a critical mass of bilingual expertise in economic analysis.

Our mission is to contribute to the well-being of Canada and Canadians by providing expert analysis and pertinent advice to decision makers on national and regional economic issues. In doing so, the Council facilitates the development of public policy through in-depth research, consultation, public information, and policy recommendations at all stages of the policy process.

The Council achieves the mission through a research and consultation process that identifies, analyzes, and communicates to decision makers information and advice on key elements of the national economic agenda. It fosters the common understanding and resolution of issues important to Canada and Canadians.

The principal clients of the Council are legislators and public servants at federal, provincial, and regional levels of government. The secondary clients are representatives of the private sector (business and labour), the national, regional, and local media, academic and economic institutions, and interest groups.

The clients are supplied with a product, which is economic information in the form of analysis and

advice. It is developed from accurate, complete, and timely research and from consultation with Canadians. The advice is reviewed and agreed to by all Council members. It is directed at meeting the needs of the key clients and is provided in all forms of media (print, visual, aural, and electronic).

To ensure that the Council meets the requirements of its Act, it tests its research against a set of medium-term goals:

- highest possible levels of employment and efficient production;
- balanced economic development in all regions of Canada;
- high and consistent rates of economic growth; and
- rising living standards for all Canadians.

Members of the Economic Council of Canada

Judith Maxwell
Chairman

Caroline Pestieau
Deputy Chairman and
Director of Council

Harvey Lazar
Deputy Chairman and
Director of Council

Miller H. Ayre
President and Chief Executive Officer
Ayre's Limited
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Diane Bellemare
Professor
Economics Department
Université du Québec à Montréal
Montréal

Jalynn H. Bennett
Corporate Development
Vice-President
The Manufacturers Life Insurance
Company
Toronto

Alan A. Borger
President
Ladco Company Limited
Winnipeg

Jacques Bougie
President
Alcan Enterprises
Montréal

Dian Cohen
President
Dian Cohen Productions
Aurora, Ontario

Thomas J. Courchene
Director
School of Policy Studies
Queen's University
Kingston

Léon Courville
Executive Vice-President
National Bank of Canada
Montréal

Alix Granger
Vice-President
Pemberton, Houston,
Willoughby, Inc.
Vancouver

Yves Guérard
President and Actuary
Groupe Sobeco Inc.
Montréal

Chester A. Johnson
Chairman and
Chief Executive Officer
Western Pulp Inc.
Vancouver

Raymond Koskie
Koskie & Minsky
Barristers and Solicitors
Toronto

William Mackness
Dean
Faculty of Management
University of Manitoba
Winnipeg

Raymond J. Nelson
President
Nelson Lumber Co. Ltd.
Lloydminster, Alberta

Marcel Pepin
Professor
École de relations industrielles
Université de Montréal
Montréal

Bartlett B. Rombough
President and Chief Executive Officer
PanCanadian Petroleum Limited
Calgary

Steve A. Stavro
President
Knob Hill Farms Ltd.
Scarborough

Ken W. Stickland
President
KenAgra Management Services Ltd.
Edmonton

Norman E. Wale
Vice-President
Investor and Industry Relations
Canadian Pacific Limited
Montréal

H. Graham Wilson
Vice-President and Secretary
Dofasco Inc.
Hamilton

In 1988-89, Susan Thompson, Kalmen Kaplansky, Pierre Fortin, Martin Chernin, George Key and Constantine Passaris completed their term as member of the Economic Council, while Michel Latraverse resigned before the end of his term.

Organization Structure

Chairman

Judith Maxwell

**Deputy Chairman and
Director of Council**

Caroline Pestieau

**Deputy Chairman and
Director of Council**

Harvey Lazar

Senior Policy Advisor

Robert A. Jenness

Corporate Secretary

Warren H. Maidens

Public Affairs

Richard R. Bélec

Research Directors:**Twenty-Sixth Annual Review; and
Explorations**

Robert A. Jenness

Performance and Outlook

Ross Preston

Manufacturing Firm Adjustment

Paul Gorecki

Unemployment Issues

Surendra Gera

**Employment and the Service
Economy**

Gordon Betcherman

**The Future of the
Prairie Grain Economy**

Andrew Schmitz/Ludwig Auer

Perspective 2000

Keith Newton

International Finance

André Ryba

International Trade

Sunder Magun

Regional Development

Dal Brodhead

Social Policy

Brian Powell

Immigration

Neil Swan

Support Services:**Publications**

Jacques Fortin

Informatics

André Bourdon

Finance and Administration

Robert Woods

Personnel

Colleen Barbeau

The Past Twenty-Five Years

The Economic Council of Canada was created on August 2, 1963, by an Act of Parliament.

In those days of slow economic growth, it was felt that continuing to react to economic problems on an ad hoc, short-term basis would have led to a continuation, even intensification, of Canada's economic woes. Much of the discussion that led to the Council's creation centred on a need for longer-range study and analysis.

The Council's Goals

The Economic Council was formed as an independent, non-partisan research body to issue recommendations based on a consensus of Council members. Its five major goals are:

- the encouragement of full employment;
- a high rate of economic growth;
- reasonable price stability;
- a viable balance of payments; and
- equitable distribution of rising incomes among individuals and regions.

As it stands today, the Council consists of a board appointed by the Prime Minister, comprising a Chairman, two Deputy Chairmen, and up to 25 members. The Chairman and Deputy Chairmen manage the work of a staff of economists and other specialists. The members, who represent various sectors of Canadian society and regions of the country, help in selecting research topics, reviewing research results, and developing policy advice for governments and the public.

Economic Pioneers

John Deutsch, the Economic Council's first Chairman (1963-67), broke a lot of new ground. For example, Council researchers were the first in Canada to experiment with potential output analysis techniques that had only begun to be used in the United States. By comparing actual with potential output, economists could gauge the effectiveness of a country's economic policies. Other work pioneered included an examination of the relationship between education and productivity.

In 1966, the Council received the first of many requests for economic research from the Prime Minister. The initial one dealt with the relationships of prices, costs, productivity, and incomes to sustained economic growth. Together with another request on consumer affairs, competition policy, and intellectual property, the Council's work had a major impact on the program of the government of the day.

During the chairmanship of Arthur Smith (1967-71), the Council made the commitment to develop the large-scale CANDIDE econometric model in order to show the consequences of the Council's targets and recommendations in quantitative terms.

Research Excellence

Chairman André Raynauld (1971-76), changed the Council's orientation with an emphasis on researchers' technical skills. Specialized research groups were established that would later produce major reports on labour markets, commercial policy, and regional development.

The Council organized two national conferences that brought together leaders from all sectors of society to discuss major issues affecting Canada's economy.

During this period, the Economic Council also published *Looking Outward*, which recommended trade liberalization – a suggestion which received a chilly reception from the business community.

Under the guidance of George Post (1976-77), the Council completed its projects on regional development (*Living Together*) and on financial markets, *Efficiency and Regulation: A Study of Deposit Institutions*. Heralded as a call for greater competition in Canadian financial markets, many of this study's recommendations were reflected in the 1980 version of the Bank Act.

Sylvia Ostry (1977-79), was successful in raising the Council's profile by increasing support for the Council's work. During her chairmanship, the Council received three requests from the Prime Minister for specific research projects. One was to study, in the long term, the economy of Newfoundland. Another was a request by the First Ministers to study the economic impact of government regulation. The Council was also asked to set up a centre for the study of inflation and productivity. Only three requests had been received prior to that time.

With David Slater (1980-85), the Council became more technically oriented. During this period, the Canadian economy was being hit by a number of serious shocks. High unemployment, high interest rates, high inflation, and the collapse of western Canada's energy-based economy were just some of the country's economic woes.

The Council undertook a number of projects in such areas as energy, women and the economy, productivity, taxation, and a special report on the western Canadian economy.

The Council is currently considering the start-up of new projects in corporate competitiveness, intergenerational equity, education, and regulatory reform.

Innovation and Diversification

Judith Maxwell (1985 to present) has launched an innovative period in the Council's history. A more pragmatic research policy, faster throughput of work, and a greater diversity of projects are now under way. Economists are now using techniques from such disciplines as sociology and political science. This approach has been applied to a wide range of projects, including international finance, adjustment and adaptation, trade policy (bilateral and multilateral), Prairie grain economy, regional development, employment and the service economy, social policy, unemployment issues, as well as immigration.

Output has increased dramatically. Whereas in its early years the Council produced an annual review of the economy, along with several other staff reports, last year the Council published an annual review, two statements, and two research reports, in addition to the regular flow of research studies and discussion papers.

Mrs. Maxwell is also concentrating more on communications through speeches, seminars, conferences, frequent appearances before parliamentary committees, and numerous briefings for Cabinet Committees and officials in Ottawa and the provinces.

Research Activities

Twenty-Fifth Annual Review: Back to Basics

Marking the Council's 25th anniversary, this overview of the Canadian economy in the medium and long term is an annual publication. Last year it reviewed Canada's performance over the last quarter century and considered key economic, environmental, political, and labour issues for the next 25 years – issues that require leaders to take a much broader approach to problem solving.

The Council observed there will be a spread of economic power from the United States to European and Pacific Rim countries. This will create both competitive challenges and new market opportunities for Canadian firms.

The Council says Canada's strategy should include reducing the federal deficit, improving competitiveness in world markets, and building a stronger, better-trained work force. In effect, human resources will be the strategic resource for Canada in the next few decades.

But in the next five years, Canada will fall short in four vital areas – productivity, unemployment, inflation, and the federal deficit.

Canada needs a highly qualified and motivated work force: greater coordination of government funding for education and training and more post-secondary courses that meet the needs of local industry and workers. Industry should improve on-the-job training and work organization.

A better effort should be made to match the unemployed with the right jobs. A stubborn core of unemployment cannot be accounted for by the normal rise and fall of the business cycle. And firms in service industries

may have to improve the quality of lower-skill jobs by offering higher pay, better benefits, and more chances for promotion, or choose to hire older workers.

Slower growth will mean little change in unemployment in the next two years, then a small decline to just over 7 per cent by 1992. Without a change in the mix of monetary and fiscal policy, the federal deficit as a proportion of the gross domestic product will decline slightly but remain disappointingly high despite rigorous spending control.

Venturing Forth: An Assessment of the Canada-U.S. Trade Agreement

The Economic Council reported in this document that the impact of the Canada-U.S. Free-Trade Agreement on the Canadian economy will be "small but positive" over the next 10 years. There is, however, scope for improvement in future negotiations.

The accord could increase employment by 1.8 per cent, or 250,000 jobs by 1998, and the gross national product may be almost 2.5 per cent higher if industry adapts to the new trade opportunities. These increases are moderate when averaged over a decade. (They are lower than 1987 Economic Council projections which were based on a hypothetical agreement prepared before the accord was published.)

Productivity improvements are necessary if Canada is to get the most out of the free-trade deal; for example, without modernizing plants and upgrading skills, employment and output would decline in 17 out of 36 industries. Almost all are in

manufacturing. With improved productivity, 29 out of 36 industries would gain.

All provinces will benefit, but the eastern and western provinces will gain somewhat more than Ontario and Quebec. This reflects the importance of removing trade barriers in such industries as agriculture, fishing, energy, and construction. The central provinces, which depend more on manufacturing, should expand more slowly.

Manufacturing industries which are expected to increase employment significantly are the lumber, primary metals, and printing and publishing industries. Others such as electrical products, rubber and plastics, and textiles should see a reduction in employment.

It is unlikely that American subsidiaries will pull out of Canada because they have already invested heavily here. As for a wave of American takeovers, the Council Statement noted that in the last decade, more investment funds have flowed south than the other way around.

Special free-trade provisions applying to such sensitive areas as agriculture, energy, the auto industry, services, and investment are acceptable to the Economic Council. It was unfortunate, however, that American government procurement of transport, telecommunications, and some defence goods is still not open to Canadian bidders. This should, maintains the Council, be a top priority in future negotiations.

The Commons Committee on External Affairs and International Trade noted that it would make sense for Canada to pull out of the deal if we are hard hit by American protectionist legislation. On the other hand, the Economic Council cautions

against repudiating the agreement as protectionist forces could launch new trade actions against this country. The Economic Council recommends that Canadians should not focus on precise numbers but on the general thrust of the results. Projections "tell a consistent story" that the free-trade agreement will promote economic growth and employment in Canada.

Perspective 2000

In 1988, as part of its 25th anniversary celebrations, the Economic Council (ECC) undertook to identify a wide range of public policy issues this country could face at the turn of the century and beyond. This major project was named *Perspective 2000*.

Some 24 scholars presented their ideas to more than 80 business executives, senior public officials, labour leaders, media representatives and other prominent decision makers. Five former ECC Chairmen, Arthur J. R. Smith, André Raynauld, Sylvia Ostry, George Post, and David Slater also played major roles at this unique gathering.

A recurrent theme of the conference was that humanity is entering an era of chronic, large-scale, and extremely complex syndromes of global interdependence. In the next century, conventional wisdom may not suffice to handle surprises in global interactions of demography, technology, and environment, and yet Canada must learn how to deal with these surprises.

The conference was told that one of the chief consequences of globalization is the dispersion not only of production, but of an ever-growing

number of services, led by those of the financial market.

It was also noted that, by the end of the century, our industrial structure will be more service-oriented, with more capital and technology, more flexibility, and greater resilience.

In effect, Canada's economy will have four characteristics. First, natural resources (except agriculture) will continue their significant role. Second, manufacturing will continue developing and have greater flexibility. Third, we will remain a "follower" in technology, although we will continue to use new technologies to good advantage. Fourth, we will continue to be plagued with regional disparities, the reduction of which will remain a Canadian economic priority.

The ongoing revolution in computer and telecommunications technology is expected to have a major impact on the structure of employment in information processing occupations, which already comprise the majority of the labour force. An aging and less mobile population will create intergenerational inequities and accentuate regional disparity – and the increasing salience of environmental issues will heighten public awareness of the distribution of environmental costs between current and future generations.

Also, it was argued that education policy is not just a question of social costs, but an instrument of economic growth. Thus education expenditures are a source, in the medium and long term, of income and prosperity.

Seminars

The Economic Council of Canada regularly holds a series of seminars during the course of the year. These short and informal presentations sometimes explain part of the Council's own research activities, or they give other researchers, in different areas of economics and who are not on staff, the opportunity to do the same, or even sometimes the Council is able to take advantage of a visit by a distinguished economist. The topics covered are varied, and the following is a list of those that were held during the 1988-89 fiscal year.

- 1 Bernard Bobe, École centrale de Paris and Representative of the French Government to the Asian Productivity Organization, 20 April 1988, "Productivity improvements in Asian countries and the role of the Asian Productivity Organization"
- 2 Claude Castonguay, Chairman of the Board and Chief Executive Officer, The Laurentian Group Corporation, 19 May 1988, "The transformation of the Canadian financial services industry"
- 3 Yves Rabeau, Université de Montréal, 29 September 1988, "Macroeconomic effects of government deficits: Results from a simulation model"
- 4 Marc Termotte, Institut national de la recherche scientifique, 4 November 1988, "Economic impact of international immigration"
- 5 Robert Coen, Northwestern University, 18 November 1988,

"Real wages, aggregate demand
and unemployment in Canada"

- 6 Jacques Lesourne, Conservatoire national des arts et métiers, Paris, 2 December 1988, "Visions of the global economy to the year 2000"
- 7 Claude Montmarquette, Université de Montréal, 21 December 1988, "The economics of education: Current knowledge and current challenges"
- 8 Christoph Buchtemann, Berlin Social Science Centre, 11 January 1989, "Labour market performance, flexibility, and job creation: The West-German experience"
- 9 Paul Guy, President, Commission des valeurs mobilières du Québec, 12 January 1989, "Internationalization of securities dealing and international co-operation"
- 10 Ivan Fellegi, Chief Statistician, Statistics Canada, 26 January 1989, "The aging of the Canadian population: Economic and social consequences"
- 11 Eric Hanushek, University of Rochester, 10 March 1989, "An overview of research related to educational policy"

The Cost of Doing Economic Research (1988-89)

The ability to do more with less is a requirement in today's society. Certainly, the Economic Council's resources have been shrinking in the past few years as a result of the federal government's drive to control spending.

The staff of the Council has shrunk since 1985-86. While, at the same time, the operating budget (the amount available to buy goods and services) has declined in terms of constant dollars (see Figure 1). Wages and salaries are budgeted separately because they are set according to Treasury Board standards.

This diminution of resources has forced the Council to be more creative with its resources – to be more precise in selecting its priorities, more efficient in its operations, and more effective in project management.

To accomplish gains in productivity on the operations side, the Council has made extensive use of personal computers, electronic data processing, and word processing. It has also automated its library, and developed a desk-top publishing capacity in order to control printing costs. Naturally, this conversion has involved major expenditures on new technology, but the payoff in the future will be a much more efficient operation.

For example, the cost of publishing the Council's reports has dropped from \$227,000 in 1985-86 to \$168,000 in 1988-89, while the actual volume of publications has increased. In the longer run, these efficiency gains will allow the Council to focus a higher percentage of its overall budget on research contracts, which account for approximately one-third of the operating budget, and on other direct costs of research such as the purchase of data, travel, and so on.

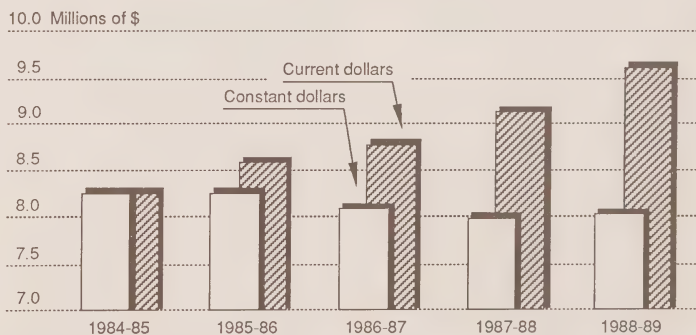
The second key element in improving Council efficiency has been improved project management. The Council has made a serious effort to focus its research on clearly defined topics, and to manage project so that they produce results over a two-year time frame. Also, the process of peer review and consultation with experts in the area has been formalized through the formation of advisory committees, who play a critical role in the monitoring of results over the course of each project.

A third element of the effort to be more effective has been a wide-ranging effort to collaborate with other organizations in meeting research objectives. In the fiscal year 1988-89, the Council had cooperative agreements with 24 other agencies. This included the extensive study of the Prairie Grain Economy, where special one-time funding was provided by the federal Department of Agriculture and the provinces of

Saskatchewan and Alberta, as well as three private firms. (Much of that research was contracted out to economists in western Canada.) Other types of cooperative agreements involved joint work on specific case studies, joint workshops on matters of interest to the Council and other research organizations, and a major effort, in conjunction with provincial and federal government departments, to develop an important new longitudinal database that will provide new insights into the question of the poverty trap.

Cooperative projects of this sort tend to enrich the Council in two ways. First of all, it is possible to complete more research than could otherwise be achieved with the existing budget. Secondly, the cooperative process enriches the Council's scholarship, giving the staff a chance to share insights with other researchers and experts in a wide variety of fields.

Trends in the Economic Council's Total Budget Appropriations, 1984-85 to 1988-89



Ongoing Research

Industrial Policy

Regional Development

Over the past two years, the Council has examined the record of community development initiatives through a series of case studies which will be published during 1989. The research is now being extended to determine the potential role of community initiatives in fostering economic development in the poorer regions of Canada.

Corporate Acquisitions and Mergers

This pilot project has two objectives. The first is to classify the mergers that have occurred in Canada in recent decades in terms of industrial organization and ownership. The second is to examine the 150 or so mergers of publicly traded companies that have taken place since 1962, in order to determine whether they operated more profitably after the acquisition than they did before.

Labour and Social Policies

In this area we have undertaken four research projects.

Employment and the Service Economy will study the changing Canadian industrial structure and its implications for employment. The shift from goods-producing to service industries has raised a number of issues regarding the operation of the Canadian labour market. The Council's project involves a systematic assessment of how industrial restructuring has affected employment and

employment policy needs in this country. Issues considered include the quality of the emerging job structure, the process of service sector employment creation, and the adequacy of traditional approaches to labour market policy.

The **Social Policy** project will focus upon the nature of poverty and the effectiveness of federal and provincial programs in alleviating its effects or removing its causes. The study will aim to better understand causes of poverty and relevant types of government intervention. A longitudinal database is being constructed to track a large sample of families and individuals over time. Parallel to the investigation of the nature of poverty, a province-by-province analysis of federal and provincial tax, transfer and social service programs will be established to examine program inter-relationships, costs and benefits, unintended incentives, and the mix of income and employment enhancement programs.

Under another project entitled **Unemployment Issues**, the Council will examine the history of unemployment in Canada during the last 25 years, including our commitment to full employment. Also, it will look at alternative explanations for the recent high and persistent levels of unemployment. It analyzes the dynamics of the Canadian labour markets including the incidence of long-term employment and unemployment levels.

The Council is also starting a project on **Immigration** which will examine the advantages and disadvantages of increasing immigration into Canada as a means of postponing or even reversing the expected decline in population in the next century. It will pose both economic

and social questions concerning the impact of immigration on living standards, on employment and unemployment, on provincial revenues and expenditures, and the impact of a culturally more diverse society on both racial and cultural harmony.

International Trade and Finance

The Economic Council will be directing three major projects in this area in the year to come. One which will be completed early in the summer of 1989 is on **International Finance** and will document the dramatic changes in international financial markets in the 1980s, focusing on the increased integration of markets and the rapid pace of innovation. It then analyzes the impact on Canada, noting the participation of Canadian financial institutions, and the repercussions for the way Ottawa and the provinces regulate financial systems. The objective of the recommendations will be to ensure that Canadians are better able to take advantage of the cheaper and more diversified services being provided in international markets, and, at the same time, to protect the security of Canada's financial system against the new kinds of risks generated by globalization and innovation.

In its **International Trade and Competitiveness** study the Council has launched a second phase of its research on trade liberalization, focusing on multilateral patterns of trade and competitiveness. The study will exploit a comprehensive new world trade database in order to

analyze the historical evolution of Canada's trade by country and commodity. It will examine the competitiveness of Canadian industries compared to other industrialized countries and some of the newly industrialized economies. This will require new and more comprehensive measures of competitiveness. It will examine the trends in commercial relations between Canada and the Pacific Rim, and between Canada and the developing countries. It will also analyze the extent of tariff and non-tariff barriers by country and commodity.

The Council is now contributing to the activities of the Pacific Economic Cooperation Conference, providing the Canadian input to the Pacific Economic Outlook Project.

Performance and Outlook

This research group is responsible for the maintenance and development of econometric models and for database management related to macroeconomic data at the Council. The group also performs periodic assessments of the medium-term outlook. The analytical material related to these assessments is published each year in the Annual Review. Current research is focused on an assessment of potential growth, policy-mix alternatives, deficits, and macroeconomic flexibility. Also, the key characteristics of the unemployed are being studied in order to develop probability models, which will be able to predict the likelihood of a person with a well-defined set of characteristics becoming unemployed in a given region.

The group is currently providing expertise and advice to the government of Newfoundland concerning the construction of a macroeconomic model of the province of Newfoundland to be used for the purpose of forecasting and policy analysis.

In the field of **Intergenerational Equity**, simulations of longer-term impacts of the aging of the population, of deficit reduction, and other policy variables that will influence the legacy that Canadians are passing along to future generations are under way.

Finally, in the area of **Demography** the Council is undertaking a reassessment of the long-term growth potential of the economy, taking into account likely changes in birth rates and immigration. This modelling work is taking advantage of a satellite model which can project the population by age and sex for Canada, each of the provinces, and for the Territories.

Publications of the Economic Council of Canada, 1988/89

Annual Report, 1987/88

Judith Maxwell (EC1/1988 – available free from the Economic Council)

Annual Review

Twenty-Fifth Annual Review:

Back to Basics, 1988 (EC21-1/1988; \$8.95 in Canada and \$10.75 in other countries)

Council Reports

Venturing Forth: An Assessment of the Canada-U.S. Trade Agreement (EC22-151/1988; \$4.95 in Canada and \$5.95 in other countries)

Handling the Risks: A Report on the Prairie Grain Economy (EC22-154/1988; \$9.95 in Canada and \$11.95 in other countries)

Research Report

Adjustment Policies for Trade-Sensitive Industries (EC22-152/1988; \$9.95 in Canada and \$11.95 in other countries)

Research Studies

Creating Jobs in the Private Sector: Evidence from the Canadian Employment Tax Credit Program S. Gera (EC22-148/1988; \$8.95 in Canada and \$10.75 in other countries)

Trade Liberalization and the Multinationals

D. G. McFetridge (EC22-156/1989; \$5.95 in Canada and \$7.15 in other countries)

Grain Market Outlook

W. H. Furtan, T. Y. Bayri, R. Gray, and G. Storey (EC22-153/1989; \$9.95 in Canada and \$11.95 in other countries)

The Taxation of Income from Capital in Canada

M. J. Daly, P. Mercier, and T. Schweitzer (EC22-155/1989; \$5.95 in Canada and \$7.15 in other countries)

Canada and International Grain Markets: Trends, Policies, and Prospects

C. Carter, A. P. McCalla, and A. Schmitz (EC22-158/1989; \$9.95 in Canada and \$11.95 in other countries)

Periodical

Au Courant, Vol. 9, Nos. 1, 2, and 3 (available free from the Economic Council)

Brochures

Economic Council of Canada: Twenty-Five Years

Catalogue of Publications

(brochures available free from the Economic Council)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Publications Division, Economic Council of Canada, P. O. Box 527, Ottawa, Ontario, K1P 5V6.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1989. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the results of operations of the Council for the year ended March 31, 1989, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, appearing to read "D. L. Meyers".

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 19, 1989

Economic Council of Canada

Statement of Operations for the year ended March 31, 1989

| Expenditure | 1989 | 1988 |
|---|----------------------------|---------------------------|
| Operations | | |
| Salaries and employee benefits | \$6,100,907 | \$5,774,562 |
| Professional and special services | 782,066 | 731,685 |
| Accommodation | 730,756 | 734,825 |
| Office furniture and equipment | 398,941 | 263,506 |
| Office stationery and supplies | 256,683 | 225,499 |
| Communications | 236,971 | 207,340 |
| Publicity, publication of reports and studies | 171,207 | 202,901 |
| Rental of equipment | 160,308 | 160,267 |
| Travel and removal | 154,346 | 171,561 |
| Repair of office furniture and equipment | 58,779 | 34,995 |
| Miscellaneous | 15,525 | 14,602 |
| Renovations | 14,811 | 17,258 |
| | <u>9,081,300</u> | <u>8,539,001</u> |
| Administration | | |
| Salaries and employee benefits | 747,540 | 742,716 |
| Employee termination benefits | 65,432 | 175,587 |
| Executive Council expenditures | 468,512 | 367,424 |
| Professional and special services | 110,212 | 146,778 |
| Travel | 102 | 23,560 |
| | <u>1,391,798</u> | <u>1,456,065</u> |
| | <u>10,473,098</u> | <u>9,995,066</u> |
| Revenue | | |
| Non-tax revenue | | |
| Refund of previous years' expenditure | 344 | 5,362 |
| Miscellaneous | 40,000 | 285,261 |
| | <u>40,344</u> | <u>290,623</u> |
| Net cost of operations (Note 3) | <u>\$10,432,754</u> | <u>\$9,704,443</u> |

The accompanying notes are an integral part of this statement.

Approved by the Council:

Chairman

Director, Finance and Administration

Economic Council of Canada

Notes to Statement of Operations

March 31, 1989

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule II of the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government of Canada's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Services provided without charge

Estimates of amounts for services provided without charge by Government departments are included in expenditures.

(d) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

The net cost of operations is funded primarily by Parliamentary appropriations, as follows:

| | 1989 | 1988 |
|---|---------------------|--------------------|
| Privy Council | | |
| Vote 20 | \$8,537,000 | \$8,464,000 |
| Supplemented by Treasury Board | | |
| Vote 5 | 146,000 | -- |
| | <u>8,683,000</u> | <u>8,464,000</u> |
| Lapsed | 82,834 | 307,759 |
| | <u>8,600,166</u> | <u>8,156,241</u> |
| Statutory contributions to employee benefit plans | 998,000 | 966,000 |
| Total use of appropriations | <u>9,598,166</u> | <u>9,122,241</u> |
| Add: Services provided without charge by Government departments | 874,932 | 872,825 |
| Less: Non-tax revenue | <u>40,344</u> | <u>290,623</u> |
| Net cost of operations | <u>\$10,432,754</u> | <u>\$9,704,443</u> |

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Annual Report

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Economic Council
of Canada

Conseil économique
du Canada

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Minister of Supply and Services Canada, 1990
Cat. No. EC1-1990E
ISBN 0-662-17972-2
Le *Rapport annuel* est aussi disponible en français.



Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 30, 1990

The Right Honourable Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities
of the Economic Council of Canada for the fiscal year ending
March 31, 1990, as required by the *Economic Council of
Canada Act*.

Yours sincerely

Judith Maxwell
Chairman

A Message from the Chairman

One of the most striking legacies of the 1980s is the vibrancy in world trade and capital flows. The repercussions can be seen throughout Canadian society – in the way production is organized and in the way the workplace functions. These factors, in turn, influence the way in which governments perform their role in encouraging growth, stabilizing economic activity, and redistributing income. Quite naturally, such changes affect people in every region of Canada; for that reason, they also have a significant impact on the research agenda of the Economic Council of Canada.

As an example of these changes, the global integration of production systems has accelerated as a result of the volatility of exchange rates, which now appear to be determined more by capital flows than trade balances. To protect themselves against unfavourable currency fluctuations or unexpected trade barriers, many firms are locating production facilities in each of their major markets. But these production units are usually intended to be an integral part of a global production system. As these investments occur, national economies become more interdependent, with both exports and imports growing in importance. Canada is no exception, as witness the dramatic increase in the volume of exports and imports as a share of total output in the economy – from 27 per cent in 1981 to 32 per cent in 1989.

New Business Connections

At the same time, companies are reorganizing their global activities to take advantage of the extraordinary speed with which lifestyles and ideas

are transmitted. This means capturing the economies of scale in marketing and advertising.

In addition, companies seek to take advantage of falling trade barriers within Europe and between Canada and the United States.

The net result is a business community that is even more internationally connected than in the past. Our economy is now more open, more integrated into the world community: Canadian firms are out there exploiting new market opportunities, and Canadian consumers are unabashed users of foreign-made products and services.

This complex web of business relationships has a number of implications for economic policy. In particular, the new outward orientation may distract Canadians from their internal connections. For example, as trade linkages between each of the provinces and the United States grow under the impact of the trade agreement, the economic ties that hold Canada together may erode. Similarly, as British Columbia and Alberta build bridges across the Pacific, their connections to the rest of the country may weaken. In short, we must be conscious that the forces of internationalization that are propelling much of the world economy may adversely affect the bonds within Canada; and we must consider carefully the appropriate responses.

As the country becomes more dependent on this web of international business relationships, the power of the private sector is enhanced. It is more difficult for Canadian governments to use regulations and taxation to promote national objectives when they have only a partial hold on a range of global activities. Moreover, companies can

shift production to locations that offer the most attractive climate for their operations. So there is a risk here that Canadians – and Canadian policymakers – will have a sense of powerlessness.

But one should not overemphasize the negative aspects of Canada's integration into the international economy. The process of reaching outward is one that builds a stronger economy – one that can, and should, produce higher living standards for Canadians in the 1990s. Ideally, that economic strength should buttress our sense of purpose.

Another force that will have a pronounced impact on the power of the federal government to manage the economy in the 1990s is the overhang of debt. This makes Canada exceptionally vulnerable to high interest rates, and it has already led to an attrition in the power of the central government to meet the expectations of its citizens. Clearly, a robust, outward-looking economy would generate the revenues needed to pay down the debt and get on with the job of governing.

New Social Challenges

The new worldwide dynamics also generates a new set of pressures on Canada's social structure, so we need to think out new ways of solving problems and sharing risks.

On the positive side, Canada has created many new jobs since 1982. The proportion of the population aged between 15 and 65 that is actually working is higher than it has ever been. Major progress has been made in reducing poverty among the elderly. At the same time, new

challenges have emerged, and some old ones remain unresolved.

One unresolved issue is our continuing incapacity to build the kind of institutional environment that would help to manage inflationary pressures when they begin to build up at the end of the business cycle. Canadians learned some tough lessons about inflationary behaviour in the harsh recession of 1981-82. At the beginning of the 1990s, however, we find ourselves once again using the same blunt instrument of monetary policy to try to beat back inflationary pressures in prices and costs (including taxes). Little progress was made over the 1980s in forging the kind of partnership between labour and management and between the public and private sectors that would reduce our dependence on a credit squeeze to avoid inflation.

New challenges have emerged because changes in the family structure and in the labour market have dramatically altered the nature of poverty and have put new demands on the social safety net. In the labour market, the Council has found that a polarization has occurred in the area of wages, with the proportion of middle-income jobs declining over the past 20 years. And we know that any family dependent on a single earner could not make ends meet if that person were employed in one of the growing number of low-paid and insecure jobs.

Numerous studies have identified the importance of education in improving one's chance in life. The poorly educated and the illiterate now face much higher risks of unemployment and inadequate incomes than they did 10 or 20 years ago (as we showed in a Statement entitled *Good Jobs, Bad Jobs*, published earlier

this year). Even those who are well educated may find themselves changing jobs frequently, and each new job may well require more education or retraining.

In sum, we are dealing with new kinds of economic insecurity that are particularly debilitating for single parents and for the illiterate. These new challenges come at a time when the federal government is weighed down by a huge deficit. That makes it unlikely that the federal spending power can be used as the main lever to modernize the social safety net.

The Council's Agenda

The combination of vibrant trade and capital flows and the changes in social structure will place a premium on two related objectives in the 1990s. The first will be to buttress the competitiveness of Canadian firms so that they are strong enough in the international marketplace to bring home the bread and butter that raises living standards. The second will be to reinforce the cohesion of Canadian society. Without a strong sense of purpose, we will dissipate our political energy on internal tensions while our trading partners will be concentrating on competitiveness.

Cohesion

The Economic Council, whose members represent all regions of the country, wants to make a constructive contribution to this delicate situation. We will do that by focusing much of our research effort over the next few years on issues that are central to the bonds that connect the disparate parts of this country.

The next major Statement by the Council will examine the role of local development organizations in addressing the economic stagnation that afflicts many communities of the country. It will set out guidelines for public support for these organizations.

The Twenty-Seventh Annual Review will examine the changing nature of unemployment in Canada and the weaknesses in the political institutions that militate against a national consensus on the goals for economic and labour market policies.

A forthcoming report on immigration will examine the economic and social repercussions of the immigration flows that have been transforming Toronto, Vancouver, and Montréal.

We have made a major investment in a new data system that will provide new analytical insights into the economic mobility of Canadians and into the strengths and weaknesses of the tax and transfer system. Who are the Canadians who depend on social assistance and other support systems? What makes them dependent and how long does that dependency last? Early research results are expected in 1990 and the Council's report will be made public in 1991.

Competitiveness

The other major theme for Council research is competitiveness, which, to the economist, means the productive performance of Canadian firms. Here we face two challenges: understanding the nature of the changes in the world economic system, and interpreting their significance for Canada.

In *A New Frontier*, for example, the Council probed the implications for Canada's financial institutions of

internationalization and innovation in global financial markets.

In a project on competitiveness and trade performance, we will examine the market shares of a large number of Canadian industries in various world markets and then assess the extent to which their cost performance can explain the trend in market share. We will also explore the impact of technology on productive performance in a number of industries.

In the meantime, the Council is investing more energy in mapping out the economic and political strengths of the new countries that are entering world industrial markets, looking specifically at the Asia-Pacific region (in a joint project with the Thailand Development Research Institute) and at Eastern Europe.

Two new projects will have a bearing on both of our themes – cohesion and competitiveness. In examining the economics of education (launched in May 1990 and of health care scheduled to begin early in 1991), we shall look at the effectiveness of two non-market sectors that have a great bearing on productive performance and that also constitute a key element of the fiscal sharing that has characterized Canada's approach to major social issues.

Each of the Council's projects is meant to produce insights that will help policymakers to make progress towards improving the quality of life and the standard of living of Canadians. Two guiding themes linking these projects are a concern for how tall we stand in the world marketplace and a need to ensure that Canadians can have confidence in their economic system. That confidence will, in turn, build the internal cohesion that is an essential building block for a strong economy.

The Research Process

The Economic Council of Canada is an independent research body with a mandate to advise governments on economic issues of national or regional importance.

More precisely, it offers economic policy advice to decision makers based on in-depth research, careful analysis, and extensive consultation with experts in both the public and private sectors. The Council strives to inform Canadians about the major economic issues and to provide policymakers with recommendations based on a consensus of Council members. It also seeks to foster an exchange of ideas and opinions about economic issues among the various economic actors and the Canadian public as a whole.

In a formal sense, the Council is composed of a Chairman and two full-time Directors, as well as 25 members drawn from business, labour, and a variety of other economic agencies in accordance with the principle of balanced regional representation. It is, in some ways, a microcosm of the Canadian economy in all its diversity. All members are appointed by the Prime Minister for three-year terms.

The Council researches problems that it has identified itself, as well as specific questions referred to it by the government. In addition, the Council publishes an Annual Review outlining medium- and long-term economic prospects for Canadians.

The Council's Uniqueness

Canada today benefits from a much richer supply of economic research than it did just 20 years ago. A wide variety of research organizations have emerged, each concerned with

specific aspects of the Canadian economy.

The Economic Council of Canada, however, remains unique. Some of the key elements that set it apart from other economic research groups are as follows:

- it is an independent organization, financed by the federal government but free to set its own agenda of national and regional issues;
- its unique make-up enables it to draw upon the expertise of both its staff economists and eminent scholars, while benefiting from the social, geographical, and political representation provided by members of the Council;
- thanks to its resources and structure, the Council can plan and carry out large-scale economic research projects with a medium- and long-term horizon;
- it is the only economic research organization with a proven track record of research and publication in both official languages. The Council thus fosters exchange among English- and French-speaking economists and between Canada and the rest of the world;
- the Council's research is aimed at a vast audience comprising governments, provincial legislatures, business, labour, academia, the mass media, and the Canadian public.

The Council's special characteristics combine to create a climate in which research aimed at identifying policies designed to increase the well-being of Canadians can flourish.

The Council has also taken on an important role as a bridge between the world of academic research and the government authorities with the actual power to set economic policy. Its professional resources, the high quality of its research staff, and its

position as a national, independent organization place it in a special position to test, by in-depth empirical analysis, the theories developed by academics. The Council's findings can then be used by government officials in designing policies and programs.

The Council's major research projects are usually from one to three years in duration. During the course of the projects, the Council releases studies and working documents presenting some of the preliminary results of its research. The findings are also often presented as part of the annual review of Canada's performance and potential.

Stages of a Research Project

The hallmark of the Council's work is high-quality research, coupled with recommendations based on a consensus of the Council's members. From planning to publication, a typical research project reflects the unique character of the Council.

Obviously, the first step is to identify and choose from among the possible research topics. Council officials consult with a wide variety of economic observers right across the country, including Council members themselves.

An initial screening is conducted by the Council's management and senior research directors. The next step involves exploratory or feasibility studies so that the research directors may determine the overall work plan of the particular project, the principal areas of research, the resources required for its completion, and the general research time frame. An outline of the proposed research project is then presented to the Council for discussion.

The next priority for the project director is to put together his research team. Its members may include Council staff economists or researchers from Canadian universities working on contract.

At the same time, an advisory committee is set up. It includes three Council members and eight experts chosen for their particular knowledge or experience in the field.

As the project unfolds, the advisory committee reviews the progress of research, assesses the preliminary findings, and ensures that the project is proceeding in accordance with the general mandate originally given by the Council. The advisory committee does not take responsibility for the formulation of recommendations, which is the final step of the research. That prerogative belongs exclusively to Council members.

After about 12 months, the project team submits a progress report at one of the Council's quarterly meetings, where members have the opportunity to comment at length on the direction the research is taking.

A draft Statement, including a series of proposed recommendations, is eventually presented to the Council members for discussion. This step enables them to provide a valuable input which reflects their various points of view. The revised consensus statement is then approved by the Council's members; members who disagree with the final version of the recommendations have the right to dissent.

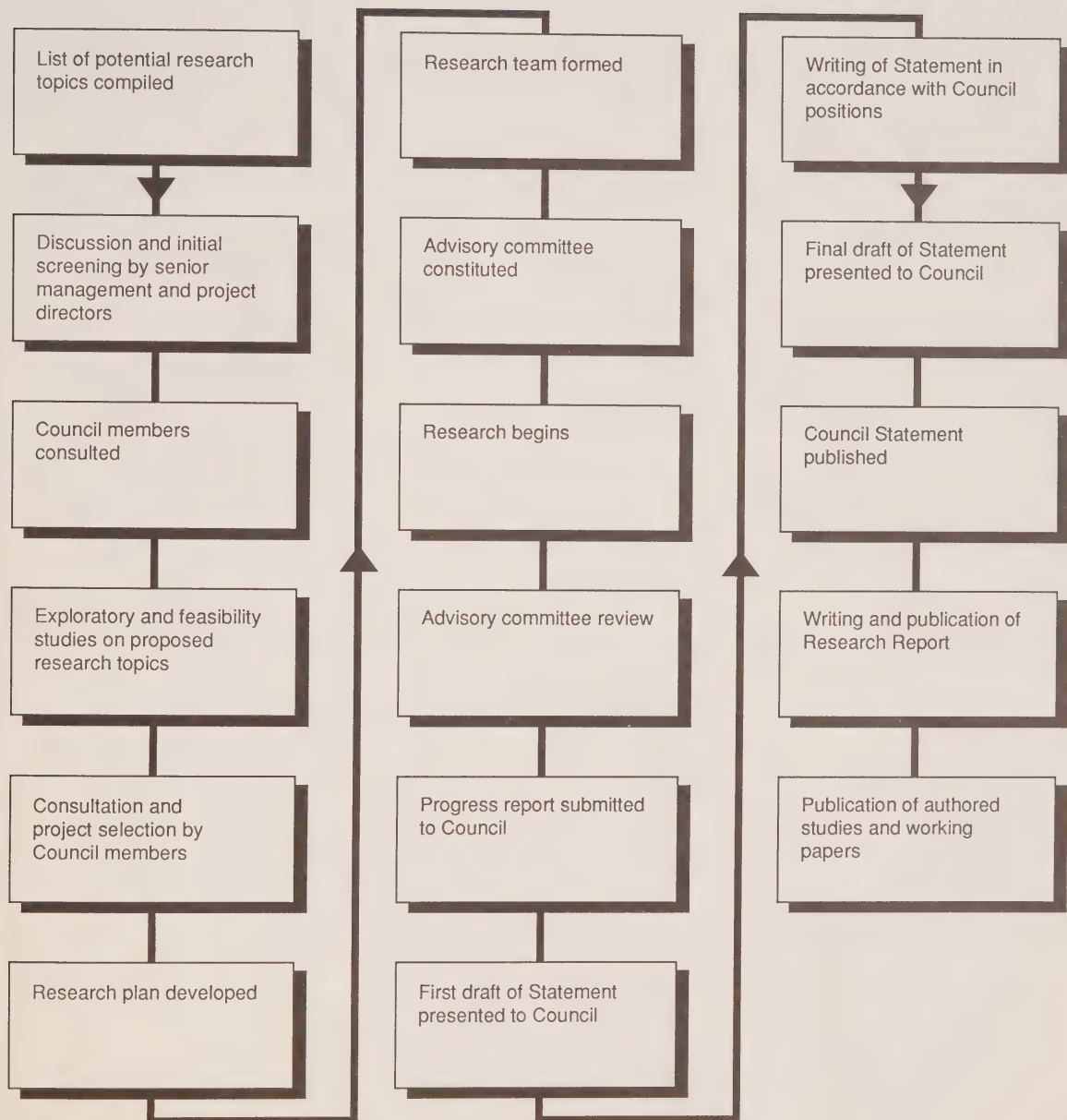
The publication of the Statement is the culmination of the research process. The document lays out the consensus views of the Economic Council in light of the research carried out by its researchers and a thorough vetting of the results by

Council members. Prior to the Statement's release, information workshops are held for government decision makers at both the federal and the provincial levels.

Following the publication of the Statement, the research team puts the finishing touches to the research report, which provides the technical details of the findings on which the Statement is based.

The most important pieces of work that fed into the project are also published separately as "Studies" or "Working Papers." These publications remain the responsibility of their authors and their findings are not officially endorsed by the Council. They are distributed to the media, to universities, to governments, and to other interested groups and individuals.

The Council also publishes a quarterly magazine, entitled *Au Courant*, which discusses work in progress and offers interviews and articles about the Council's activities and publications.



Members of the Economic Council of Canada

Judith Maxwell
Chairman

Caroline Pestieau
Deputy Chairman and
Director of Council

Harvey Lazar
Deputy Chairman and
Director of Council

Miller H. Ayre
President and Chief Executive Officer
Ayre's Limited
St. John's, Newfoundland

Diane Bellemare
Professor
Department of Economics
Université du Québec à Montréal
Montréal, Quebec

Jalynn H. Bennett
President
Jalynn H. Bennett Associates Limited
Toronto, Ontario

Alan A. Borger
President
Ladco Company Limited
Winnipeg, Manitoba

Peter M. Brophy
North York, Ontario

Dian Cohen
President
Dian Cohen Productions
Ayres Cliff, Quebec

Thomas J. Courchene
Director
School of Policy Studies
Queen's University
Kingston, Ontario

Léon Courville
Executive Vice-President
National Bank of Canada
Montréal, Quebec

Alix Granger
Vice President
Royal Bank of Canada
Dominion Securities Pemberton
Vancouver, British Columbia

Yves Guérard
President
Groupe Sobeco Inc.
Montréal, Quebec

Nancy R. Jackman
President
443472 Ontario Limited
(Investment Corporation)
Toronto, Ontario

Chester A. Johnson
Chairman and
Chief Executive Officer
Western Pulp Inc.
Vancouver, British Columbia

William Mackness
Dean
Faculty of Management
University of Manitoba
Winnipeg, Manitoba

Marcel Pepin
Professor
École de Relations industrielles
Université de Montréal
Montréal, Quebec

Struan Robertson
Chairman
Central Guaranty Trust Company
Halifax, Nova Scotia

Rix Rogers
President
Rix G. Rogers & Associates
Oakville, Ontario

Bartlett B. Rombough
President and Chief Executive Officer
PanCanadian Petroleum Limited
Calgary, Alberta

Ken W. Stickland
President
KenAgra Management Services Ltd.
Edmonton, Alberta

Michael A. Sullivan
Chartered Accountant
Summerside, Prince Edward Island

Norman E. Wale
Vice-President
Investor and Industry Relations
Canadian Pacific Limited
Montréal, Quebec

H. Graham Wilson
Vice-President and Secretary
Dofasco Inc.
Hamilton, Ontario

Council Meetings, 1989-90

The Economic Council meets four times a year to discuss its research agenda. During those meetings, members review current economic policy and examine the various policy options developed jointly with Council researchers.

In 1989-90, meetings took place in Vancouver (June) and Toronto (September), with the final two meetings held in Ottawa (December and March).

All four meetings were chaired by Judith Maxwell, the Chairman of the Council.

At these meetings, ECC management reviewed the current research activities of the Council, and project directors reported on progress in their respective areas.

Vancouver Meeting – 20 and 21 June 1989

The two main subjects of this meeting were the Twenty-Sixth Annual Review, which focuses on intergenerational equity, and the Statement on the globalization of financial markets. Members also discussed the preliminary findings of the project on service-sector employment.

Toronto Meeting – 19 and 20 September 1989

This meeting concentrated on the Statement on employment in the service sector. In addition, the preliminary findings of research on mergers and acquisitions were also reviewed, and a progress report on regional development was presented and discussed by Council members.

Ottawa Meeting – 5 December 1989

On this occasion, Council members discussed the Twenty-Seventh Annual Review, which will focus on unemployment. A progress report on Canadian competitiveness and trade performance was also on the agenda. Members were briefed on the basic structure of the Council's proposed research project on education.

Ottawa Meeting – 6 and 7 March 1990

Council members discussed the preliminary findings of the project on immigration. They also examined research results from the social policy project. The final major items on the agenda were the Council's proposed Statement on Local Development and the preliminary work for the Twenty-Seventh Annual Review.

Research Activities, 1989-90¹

The Twenty-Sixth Annual Review

The Twenty-Sixth Annual Review, entitled *Legacies*, addressed intergenerational issues. It focused on the legacy of persistent federal deficits, mounting public debt, environmental degradation, and relatively poor productivity performance that the current working generation has inherited. It presented medium-term economic projections and targets, and demographic projections to the year 2040. It considered alternative courses of action that would leave a more favourable economic legacy to future generations of Canadians. It looked into the next century, when the proportion of Canadians aged 65 years and over will more than double, and it questioned how the working generation of that time will cope with the additional health-care and income-support costs. Finally, it urged additional fiscal restraint and early restoration of the federal government's fiscal balance.

Members of the research group included Robert A. Jenness, project director, Gordon Betcherman, Christina Caron, Ronald Hirshhorn, Norman Leckie, Bimal Lodh, Sunder Magun, Pierre Mercier, Someshwar Rao, Farah Tcharkari, and Lise Sabourin, secretary. The Performance and Outlook group included Ross S. Preston, project director, Andrew Burns, Bobbi Cain, Pat E. Nevin, Haider M. Saiyed, and Mary Rowe, secretary.

Regional Development

The results of the Council's research on the Directions for Regional Development were reported in a series of 18 Local Development Papers that captured the diversity of the local-development experience in Canada.

International Financial Markets

The Council released a Statement and a research report on international financial markets. The Statement, entitled *A New Frontier*, gave some answers and proposed policies to improve the Canadian financial system. The document described the transformation of international financial markets in recent years. It discussed new financial services and noted that new technology is binding the financial world into a single global marketplace. The report also dealt with such issues as the competitiveness of Canadian financial institutions internationally and the impact of new services on Canadian markets. The Council's policy proposals were designed to strengthen competitiveness and to improve the supervision of financial firms. The research report, entitled *Globalization and Canada's Financial Markets*, provided the analytical findings to support the policy proposals contained in *A New Frontier*. It documented the growth of international financial markets, the role of Canadian borrowers and financial institutions in those markets, the increasing use of new instruments, and the increased entry of foreign financial institutions into domestic markets. It explored the implications of these changes for Canada and for the stability of the

world financial system. It paid particular attention to the way in which Canada must change its financial regulations in order to meet the challenges created by the more highly internationalized financial system.

The members of the research team included André Ryba, project director, Keith Patterson, Andrée Mayrand, Pierre Mercier, Ashok Nigam, Hani Zayat, and Carole Morris, secretary.

Agriculture

Two studies dealing with agriculture were published. The first, *Canadian Agricultural Policy and Prairie Agriculture*, by Murray Fulton, Ken Rosaasen, and Andrew Schmitz, examined the crisis of Prairie agriculture in the 1980s, with particular attention to the build-up of farm debt. It also reviewed the major programs that the federal government has used in recent years to support Prairie grain farmers. The study investigated the role that these programs have played in aggravating or alleviating the crisis, and it looked at their overall impact on the Prairie farm sector. The second study, Ludwig Auer's *Canadian Prairie Farming, 1960-2000 - An Economic Analysis*, assessed the magnitude of the farm financial crisis in the Prairie provinces, identified the underlying causes, examined the effectiveness of existing government programs, explored alternative policy options, and projected what farm adjustments are likely to occur in the future.

Service Economy

The Council released a Statement on employment in the service

1 After completing their work on one project, some researchers moved on to another during the year; thus some names appear under two different projects.

economy, entitled *Good Jobs, Bad Jobs*. This Statement focused on the shifting structure of the Canadian economy, from one based on resources and manufacturing to one where most people are now involved in the production of services. It examined a number of dimensions of the emerging labour market, including the factors that explain the growth of service employment, the nature of the jobs that are being created, and the labour adjustment associated with the changing employment structure. The report concluded that fundamental changes are occurring in the labour market and that many of Canada's institutions and patterns of behaviour must be reshaped to build a first-class work force and to enhance the security of workers in the future. To this end, it considered a range of policy issues in the areas of training and labour adjustment, employment benefit standards, and industrial and regional development.

The members of the research team included Gordon Betcherman, project director, Marcel Bédard, Christina Caron, Surendra Gera, Norman Leckie, Kathryn McMullen, Benoît Papillon, Harry Postner, Syed Sajjadur Rahman, Tom Siedule, and Juliette Beaugé-Legault, secretary.

Perspective 2000

The Perspective 2000 project was launched in the fall of 1987 as part of the celebrations surrounding the 25th anniversary of the Council. The original idea was to identify and explore a wide range of public policy issues likely to be facing Canada at the turn of the next century.

Main Themes

The project was organized around four subject "blocks" or main themes:

- the first block, aimed at mapping out the global setting – i.e., the physical, geopolitical, and economic environment of the year 2000; the major environmental and demographic trends; and scientific and technological progress;
- the second block, dealing with Canada's place in the world economy, the structure and competitive capacity of the Canadian economy, and the redistributive impact of structural change;
- the third block, on the question of human-resource development and the role of education; and
- the fourth block, focusing on the process of economic policy development and on the role of economic advisers.

Results

The unique approach adopted for the Perspective 2000 project led to a series of events that differed markedly from the Council's usual products.

Perspective 2000 Conference

The centrepiece of the project was the Perspective 2000 Conference, which took place in Ottawa on 30 November and 1 December 1988. The Council's research staff first undertook the task of deciding what the most important general-interest issues might be in the year 2000 and then developed the framework of the Conference around these themes.

Twelve eminent scholars were invited to prepare papers with a distinctly international flavour, and

twelve other experts were asked to serve as discussants to analyse the material from a specifically Canadian viewpoint.

The Conference provided a unique opportunity for its participants to reflect upon and discuss the many challenges and dilemmas that Canadians will face in the future. In fact, one way of describing the event would be to call it an "intellectual feast."

Seminars

Concerned with reaching a wider audience of decision makers than just those present at the Conference, the Perspective 2000 team developed a brief presentation summarizing the major themes and questions raised at the Conference. This material was used in a series of seminars and workshops involving various groups across the country. Eight seminars and workshops were held between May and November 1989, most of them co-sponsored by other public and private organizations.

These seminars provided the opportunity to reach a wide range of decision makers from provincial and municipal governments, the business community, and the labour movement.

The proceedings of the Conference were released in May 1990. A separate synopsis, covering the major issues and problems raised in the course of the project, will be published at the same time.

Submission to the Finance Committee

The Council made two submissions to the House of Commons Finance

Committee in order to present its position on the federal government's proposed Goods and Services Tax. A number of simulations of the economic impact of the new tax were undertaken; they revealed that the effects of the GST were significantly less when a lower tax rate was used. The Council's position was based around the following parameters:

- the tax base should be broadened by eliminating as many exemptions as possible;
- a broader tax base would enable the government to impose a lower tax rate; and
- a lower tax rate would help to convince the provinces to integrate their own sales tax with the new federal tax.

Submission to the Senate Committee

Representatives from the Council appeared before the Senate Committee on Banking, Trade and Commerce to discuss issues related to international finance; before the Senate Committee on Energy and Natural Resources to discuss the role and future of Petro-Canada; and before the Senate Committee on Social Affairs to discuss issues of regional disparities and also technological change.

Seminars

The Economic Council regularly holds a series of seminars during the course of the year. In some cases, these short and informal presentations serve to explain some of the Council's own research activities, while in other instances they give researchers working in different areas of economics at other institutions an opportunity to explain their work to their Council colleagues. The Council is sometimes able to take advantage of a visit by a distinguished economist. The topics covered are varied. The following is a list of the seminars held during the 1989-90 fiscal year.

14 April 1989: Robert M. Stern, University of Michigan and Brandeis University, and Alan V. Deardorff, University of Michigan, "Alternative scenarios for multilateral trade liberalization under the Uruguay Round – An impact analysis."

28 April 1989: John Whalley, University of Western Ontario, "Coalition in the Uruguay Round; the extent, pros and cons of developing country participation."

15 May 1989: Dr. Chen Bao-Sen, Institute of American Studies, Chinese Academy of Social Sciences, Beijing, China, "China's economic reform; challenges and prospects."

23 May 1989: E. Mike Murphy, Demographic Review Secretariat, "Findings review of demography and its implications for economic and social policy."

27 June 1989: Dr. Chikashi Moriguchi, Institute of Social and Economic

Research, University of Osaka, Japan, "Domestic demand expansion and recent changes in import structure."

29 June 1989: Douglas House, Institute of Social and Economic Research, Memorial University of Newfoundland, "Unemployment insurance and regional development."

15 September 1989: Calvin S. Goldman Q.R., Bureau of Competition Policy, Consumer and Corporate Affairs Canada, "Administration of the merger provisions of the Competition Act: Some recent developments."

29 September 1989: Derek Hum and Wayne Simpson, University of Manitoba, "Estimating labour supply functions; the relative contribution of econometric refinements and data improvements."

31 October 1989: Jan Kowalski, University of Karlsruhe, West Germany, "From Marx to market."

10 November 1989: Leonard Dudley, University of Montréal, "Disequilibrium with contemporaneous supply adjustment in a model of public spending."

27 November 1989: David E. Bloom, Columbia University, "An analysis of the earnings of Canadian immigrants."

8 December 1989: Gilles Paquet, University of Ottawa, "Ethics and economics, the two faces of Janus or political economy should not have been eviscerated of its ethical content."

5 January 1990: Lynn Krieger
Mytelka, Carleton University, "Strategic partnering activity by European firms through the Esprit Program."

19 January 1990: John B. Robinson,
University of Waterloo, "Designing a sustainable society for Canada."

5 February 1990: Sylvia Ostry, Centre
for International Studies, University
of Toronto, "The political economy of
policymaking in the triad."

In addition, internal seminars were
occasionally given by Council re-
searchers to provide up-to-date
information on research in progress
at the Council.

Ongoing Research

Performance and Outlook

This research group is responsible for maintaining and developing econometric models, as well as for ensuring database management related to macroeconomic data at the Council. The group also performs periodic assessments of the medium-term economic outlook. The analytical material related to these assessments is used as an input to the Pacific Economic Outlook, sponsored by the Pacific Economic Cooperation Conference, and also forms the basis for the macroeconomic simulations that appear each year in the Annual Review. Current research is focused on an assessment of the impact of zero inflation, the peace dividend, and alternative monetary- and fiscal-policy regimes.

Substantial emphasis is also being placed on labour market issues and conditions. Key characteristics of the unemployed are being studied in order to develop models that help to explain why the structural characteristics of Canada's regional economies may lead to differing unemployment rates in the regions. As well, a number of transitional probability models have been constructed for each province to separate the incidence of unemployment from the duration of unemployment. In addition, models have been constructed which are designed to isolate the impact of the changing patterns of exports and imports on employment growth by industry. Changing trade patterns around the world continue to put pressure on the composition of Canadian exports and imports, and these effects make their way directly to Canadian labour markets.

The theme of the Council's Twenty-Seventh Annual Review deals with

labour markets, and specifically with the unemployment dilemma. The Review will examine three key aspects of the Canadian unemployment experience: the upward trend in the aggregate unemployment rate; the persistence of unemployment; and the disparity between regional unemployment rates. The Review will also relate important world events in the Pacific Rim, Europe, and North America to Canada's position in the world as a trading nation. Issues pertaining to the Eastern European situation will be assessed within the context of the various imbalances that already exist among the most important trading nations.

The Performance and Outlook during the past year also made a substantial contribution to the debate on the Goods and Services Tax. In the fall of 1989, two important submissions outlined the macroeconomic impact of the GST on prices, output, deficits, employment, productivity, and so on.

Competitiveness and International Trade

The Council has launched the second phase of its research on trade liberalization, focusing on multilateral patterns of trade and competitiveness. The study will exploit a comprehensive new world-trade database in order to analyse the historical evolution of Canada's trade, by country and by commodity. It will compare the competitiveness of Canadian industry with that of other industrialized countries and of some of the newly industrialized economies. This will require new and more comprehensive measures of competi-

tiveness. The study will also examine the trends in Canada's international commercial relations.

Local Development

The Council will publish a Statement on community economic development. Over the past two years, the Council has examined the record of community development initiatives through a series of case studies that were published during 1989-90. The second phase of the project will focus on the context within which local-development initiatives take place and will evaluate their actual and potential impact on the future of communities facing adversity.

Corporate Mergers and Acquisitions

This pilot study tracks the Canadian merger experience during recent decades. It also examines the 100-odd mergers of publicly traded firms that occurred between 1963 and 1983 in order to determine whether they operated more profitably after acquisition than they did before. A first draft has been completed and has been circulated for comments.

Education

Research will begin on a project dealing with education. The project's focus will be on the ability of our education and training systems to meet a critical challenge and on Canada's ability to pursue vigorously a range of actions that will enhance productivity and competitiveness and

thereby ensure the country's survival and prosperity in the global economy. While it is clearly understood that the goals of education are extremely broad, this project will concentrate primarily, although not exclusively, on economic factors. The quality and efficacy of the education system will constitute a primary focus.

The Service Economy

The Council will publish a research report on the service economy. This report will present the Council's analysis of changing labour markets and, in particular, of the implications of the growing importance of the service economy. It will contain a detailed examination of the growth of service employment, labour adjustment associated with the changing industrial structure, the nature of the new service jobs, and trends in income distribution. The report will also discuss the implications of the changing labour market for training and education.

Immigration

The Council will release a Statement on immigration. This project will examine the advantages and disadvantages of increasing immigration into Canada, either for its own sake or as a means of postponing or even reversing the expected decline in population in the next century. It will pose both economic and social questions with respect to the impact of immigration on living standards, on employment and unemployment, and on provincial revenues and expenditures. It will also explore the

impact of a culturally more diverse society on both racial and cultural harmony.

Social Policy

The Council's research on social policy will continue; the results will be published, and a Council Statement may be released. This project focuses on the nature of poverty and the effectiveness of federal and provincial programs in alleviating its effects or removing its causes. The study will seek to better understand the causes of poverty and the relevant types of government intervention. A longitudinal database is being constructed to track a large sample of families and individuals over time. Parallel to the investigation of the nature of poverty, an analysis of federal and provincial tax, transfer, and social-service programs will be carried out for some provinces, in order to study program interrelationships, costs and benefits, and unintended incentives, as well as the mix of income- and employment-enhancement programs.

Perspective 2000

The proceedings of the "Perspective 2000" conference were published in May 1990, along with a synopsis prepared by the Council's staff.

Publications of the Economic Council of Canada, 1989/90

Annual Report, 1988/89

Judith Maxwell (EC1/1989E – available free from the Economic Council)

Annual Review

Twenty-Sixth Annual Review: **Legacies**, 1989 (EC21-1/1989E; \$8.95 in Canada and US\$10.75 in other countries)

Council statements

A New Frontier: Globalization and Canada's Financial Markets (EC22-160/1989E; \$5.95 in Canada and US\$7.15 in other countries)

Good Jobs, Bad Jobs: Employment in the Service Economy (EC22-164/1990E; \$5.95 in Canada and US\$7.15 in other countries)

Research report

Globalization and Canada's Financial Markets (EC22-162/1989E; \$15.95 in Canada and US\$19.15 in other countries)

Research studies

Regulatory Failure and Renewal: The Evolution of the Natural Monopoly Contract
John R. Baldwin (EC22-157/1989E; \$11.25 in Canada and US\$13.50 in other countries)

Canadian Agricultural Policy and Prairie Agriculture

Murray Fulton, Ken Rosaasen, and Andrew Schmitz (EC22-159/1989E; \$11.95 in Canada and US\$14.35 in other countries)

Canadian Prairie Farming, 1960-2000: An Economic Analysis
L. Auer (EC22-161/1989E; \$10.95 in Canada and US\$13.15 in other countries)

Periodical

Au Courant, Vol. 10, Nos. 1, 2, 3, and 4 (available free from the Economic Council)

Brochure

Catalogue of Publications (EC1-1/1990; available free from the Economic Council)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Publications Division, Economic Council of Canada, P. O. Box 527, Ottawa, Ontario K1P 5V6.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1990. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the results of operations of the Council for the year ended March 31, 1990, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "D. L. Meyers".

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 1, 1990

Economic Council of Canada

Statement of Operations

Year ended March 31, 1990

| | 1990 | 1989 |
|---|-------------------|-------------------|
| | \$ | \$ |
| EXPENDITURE | | |
| Economic research and policy analysis | | |
| Salaries and employee benefits | 5,027,359 | 4,802,624 |
| Employee termination benefits | 45,288 | 4,516 |
| Professional and special services | 674,425 | 656,739 |
| Supplies, furniture and equipment | 311,625 | 461,729 |
| Travel, communication and publication | 211,679 | 254,558 |
| Rental, repair and maintenance of equipment | 157,780 | 177,518 |
| Miscellaneous | 20 | 8 |
| | 6,428,176 | 6,357,692 |
| Consultation and public information | | |
| Salaries and employee benefits | 1,795,307 | 1,696,442 |
| Employee termination benefits | 55,295 | 8,006 |
| Travel, communication and publication | 148,118 | 140,341 |
| Professional and special services | 112,707 | 95,577 |
| Council meetings | 99,329 | 84,258 |
| Supplies, furniture and equipment | 9,834 | 12,994 |
| Rental, repair and maintenance of equipment | 5,908 | 6,144 |
| Miscellaneous | 114 | 169 |
| | 2,226,612 | 2,043,931 |
| Administration | | |
| Salaries and employee benefits | 755,990 | 734,978 |
| Employee termination benefits | - | 52,909 |
| Accommodation | 715,294 | 730,756 |
| Travel, communication and publication | 141,468 | 233,924 |
| Supplies, furniture and equipment | 133,069 | 139,716 |
| Professional and special services | 105,691 | 124,828 |
| Rental, repair and maintenance of equipment | 57,292 | 51,152 |
| Miscellaneous | 1,205 | 3,212 |
| | 1,910,009 | 2,071,475 |
| | 10,564,797 | 10,473,098 |
| REVENUE | | |
| Non-tax revenue | | |
| Refunds of previous years' expenditure | 13,603 | 344 |
| Miscellaneous | 86,920 | 40,000 |
| | 100,523 | 40,344 |
| Net cost of operations (note 3) | 10,464,274 | 10,432,754 |

The accompanying notes are an integral part of this statement.

Approved by the Council:



Judith Maxwell
Chairman



Robert Woods
Director, Finance and Administration

Economic Council of Canada

Notes to the Statement of Operations March 31, 1990

1. Authority and purpose

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule II of the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Revenue recognition

Revenue is recorded on the cash receipts basis in accordance with the Government's accounting policies.

(c) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(d) Services provided without charge

Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(e) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

| | 1990 | 1989 |
|--|------------|------------|
| | \$ | \$ |
| Privy Council Vote 20 | 8,532,000 | 8,537,000 |
| Supplemented by Treasury Board Vote 5 | 185,000 | 146,000 |
| | 8,717,000 | 8,683,000 |
| Lapsed | 9,897 | 82,834 |
| | 8,707,103 | 8,600,166 |
| Statutory contributions to employee benefit plans | 983,000 | 998,000 |
| Total use of appropriations | 9,690,103 | 9,598,166 |
| Add: Services provided without charge by other Government departments | 874,694 | 874,932 |
| Less: Non-tax revenue | 100,523 | 40,344 |
| Net cost of operations | 10,464,274 | 10,432,754 |

4. Changes in the Statement of Operations' presentation

The allocation of expenditures between economic research and policy analysis, consultation and public information, and administration has been revised this year to better reflect the nature of activities of the Council. The amounts appearing in this Statement of Operations for 1988-89, presented for comparative purposes, have been restated to conform to the 1989-90 presentation.

Organization Structure

Chairman

Judith Maxwell

Deputy Chairman and

Director of Council

Caroline Pestieau

Deputy Chairman and

Director of Council

Harvey Lazar

Senior Policy Advisor

Robert A. Jenness

Corporate Secretary

Warren H. Maidens

Public Affairs

Richard R. Bélec

Research Directors:

Twenty-Seventh Annual Review

Ross Preston

Performance and Outlook

Ross Preston

Manufacturing Firm Adjustment

Paul Gorecki

Unemployment Issues

Surendra Gera

Employment and the Service

Economy

Gordon Betcherman

Perspective 2000

Keith Newton

International Finance

André Ryba

International Trade

Sunder Magun

Local Development

Tim O'Neill

Social Policy

Brian Powell

Immigration

Neil Swan

Education

Keith Newton

Support Services:

Publications

Jacques Fortin

Informatics

André Bourdon

Finance and Administration

Robert Woods

Personnel

Colleen Barbeau

Annual Report

CAI
EC
-A55

Economic Council of Canada



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Minister of Supply and Services Canada, 1991
Cat. No. EC1-1991E
ISBN 0-662-18986-8
Le Rapport annuel est aussi disponible en français.



Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 28, 1991

The Right Honourable Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1991, as required by the *Economic Council of Canada Act*.

Yours sincerely

Judith Maxwell
Chairman

A Message from the Chairman



Judith Maxwell

One of the bonds that has held Canadians together in the past has been a broad consensus about the role that government should play in their lives. As a rule of thumb, that role has often been defined in terms of a middle way: rather more active than that of the U.S. government; less so than that of most governments in Europe.

In particular, Canadians have endorsed the concept that governments should stabilize the economy, foster economic development, and ensure a more equitable distribution of income, public services, and economic development across the country.

Two critical issues are forcing a review of that role – the challenges of renewing the federation and of keeping Canadian industry competitive in the marketplaces of the world.

The two issues are not independent: effectiveness in government is key to the viability of the federation, just as it is central to competitiveness. In the eyes of the Council, genuine competitiveness in the long term should encompass both economic and social aims. It means meeting the test of the market while improving living standards for all Canadians.

Meeting the test of the market demands constant adaptation.

Historically, Canada's main role in world markets has been that of the rentier in the sense that it was based more on selling natural assets than on creativity. A large share of the income Canada earned in international markets came from the land – generated through the harvesting, extraction, and processing of raw materials. In the past few decades, however, the capacity of the resource sector to support economic growth has diminished. From this point on, forward momentum will have to be generated through the technical and marketing know-how of Canadians and the efficiency of Canadian companies. On this dimension, Canada has to come from behind.

Work done by the Economic Council in assessing the Canada-U.S. Free-Trade Agree-

ment showed that the Canadian manufacturing sector, in particular, faced a major challenge of revitalization if it was to succeed in the North American market. A surprisingly large number of Canadian manufacturing firms in the 1980s were "suboptimal" (the economist's term for small and inefficient). Future economic success, therefore, required a fundamental turnaround in this pattern. The target would have to be a manufacturing sector that would employ fewer people for a given level of production. Employment growth would occur as stronger firms expanded production over time. This new and leaner structure would be the foundation for a high-wage, high-productivity economy.

The transformation from the role of rentier to creative producer is not really a matter of choice for Canadians – nor is it one that can be made according to our own timetable. The pace is set by the globalization of world markets; and the evidence indicates that through the 1980s Canada was making the transition much more slowly than most of its trading partners.

The transition has been associated with a good deal of stress on individual Canadians. Recent Council reports have documented the increasing economic insecurity experienced by Canadians in the 1980s. This was reflected in the high rates of long-term unemployment and in the dramatic changes in job structure – notably a sharp increase in the share of unstable, low-earning jobs. It was also evident in the very limited rise in living standards in the 1980s, particularly for breadwinners under the age of 35.

Ironically, measured rates of poverty actually declined over the 1980s. But work being done at the Council shows a great deal of movement into and out of poverty, with the result that 25 per cent of Canadians under the age of 65 actually experienced a spell of poverty in the period 1982-86.

Other indicators underline the turbulence of people's lives – people move a lot (about 45 per cent of the population moves from one

census region to another in any given year). They change jobs frequently (roughly 3 million out of the 14 million people in the work force change jobs in a year). And their marriages break down (in 1988, there were three divorces for every seven marriages). Behind these abstract statistics lie many personal stories of hardship and difficult adjustment, mixed, of course, with many stories of adventure and success.

The point is that many Canadians feel that they have had a rough ride in the 1980s. They are disappointed and frustrated; and they worry that the safety net has been eroding. This explains many of the tensions of the 1990s – the yearning for a departed status quo, the resistance to big policy changes such as new trade agreements or tax reforms, and the harsh criticism of governments, political leaders, and the political system in general.

Hence the need to rethink the concepts of community and sharing that have held the disparate parts of Canada together since 1867, at the same time that we are rethinking our place in world markets.

One obstacle to renewal is a deeply held fear of being pulled out of what was perceived as serene isolation into the vortex of the global market. Globalization is seen as a leveller of nations. In the process of becoming successful exporting nations, economies like Taiwan, South Korea, and eventually Mexico will narrow the economic gap between themselves and developed societies. Their governments are already committing investments to infrastructure and the environment on a scale that would have been unthinkable even five years ago. In the case of Taiwan and South Korea, we also see very substantial increases in wages. Their people are no more content than Canadians would be to languish in the role of low-wage, low-productivity societies.

Many Canadians fear that competing with Mexicans, Koreans, and Taiwanese will pull their wages down to some global average. But there is nothing inevitable about such an

outcome. We can choose a high-productivity, high-wage role, if we recognize and act on the commitment this demands.

To go this route, Canadians must first be convinced that increasing productivity (the amount produced per worker or per dollar of investment) is essential: that it is the prerequisite for rising standards of living. The pace of productivity growth also determines how much we can clean up the environment, how much we can spend on health and education, and how well we can provide for the poor and the unemployed. In social terms as much as in economic ones, productivity growth is the true bottom line.

There are two major elements in the productivity race – the efficiency of the private sector and the effectiveness of the public sector. The two are closely interconnected.

On the private side, the direct sources of productivity are in the workplace – in the quality of the technology, in the commitment to training, and in a workplace culture that fosters excellence. Canada's track record in these areas is spotty; so much so that it is a concern to Council how well Canadian industry can succeed in the export markets of the future.

Current Council projects are exploring these issues from a number of perspectives. We are in the process of completing a major study on competitiveness and trade performance that examines the productivity and cost performance of manufacturing and other industries, the determinants of productivity growth including science and technology, and an analysis of how the cost structure of Canadian industry affects trade performance.

We are also entering the final stages of a study of education which looks at the quality of education, the transition from school to work, and the training of workers once they have finished their formal schooling. Everything we learn from our studies of trade, technology, and competitiveness indicates that education is critical to economic success.

If this is true, then education truly is a

public good in the sense that high educational attainment of the Canadian work force will improve the rate of growth in productivity, enhance job satisfaction and the commitment to excellence, and, in the process, improve living standards for all Canadians. This justifies the role of government in education.

But the other message that comes from our work is that education is also a private good. A corporation that invests in effective training of its ongoing work force finds that it has a competitive edge in the marketplace. An individual who has invested in education usually enjoys a higher income and better job security.

The issue, then, is not whether we should invest heavily in education, but whether all the players in society who are committed to a training and learning culture are using resources efficiently and getting full value for their investment.

Another study, focused on the Asia-Pacific Rim, looks at the new players, new markets, and new competitors on the world scene and attempts to identify opportunities for Canadians to do business on the far side of the Pacific. In these markets, a successful transition from rentier to creative producer will be critical. In the old days, when Canada was marketing commodities, the market set the price once a certain quality standard was met. There was little need for creativity.

In the new era, successful export sales depend upon more sophisticated marketing skills. Canadian managers and production experts will have to convince importers in other countries that their products can be adapted to meet the importer's needs better than products from another source. The critical question is whether Canadian managers are ready for this role now? If not, how soon can they be?

The outcome of the quest for faster productivity growth will also be determined by the effectiveness of the Canadian public sector. The Prime Minister has just asked the Council to undertake a study on Governments' Impact

on Competitiveness. We will be examining the influence of the public sector on the private sector. More specifically, we want to understand whether the way in which Canadian governments – federal, provincial, and municipal – deliver goods and services to Canadians corresponds to the needs of the modern era.

Three pressures make this quest urgent:

- One is the federal deficit and debt, the burdens of which are forcing a major rethinking of the role of the federal government and its interaction with the provinces.
- Stresses in federal-provincial relations are leading to a fundamental reexamination of what the respective powers of the federal and provincial governments should be. (The Council will address this issue in its Twenty-Eighth Annual Review on the economic union of Canada, to be released in the autumn of 1991.)
- Finally, there is the concern in the business community that government-mandated costs are loading a dead-weight burden on industry that it can no longer support.

Behind all three pressures lies the tendency – to a greater or lesser degree – for governments at all levels to go into debt, to run down the infrastructure, to allow environmental concerns to go unaddressed, and, in general, to pass on a heavy burden of unfinished business to the generation ahead.

The challenge faced by our generation is to pay off some of these obligations and to begin building a better legacy for the future, including a viable resource base, an educated, creative work force, and a political system that can cope with the problems of the federation and the economy.

When viewed in the context of the need for Canada to be competitive, this catch-up process raises a number of exceptionally difficult economic issues. If too many costs are loaded onto today's producers, they may lose their capacity to compete in the world markets, and thus jeopardize opportunities for employment and productivity growth. On

the other hand, if we defer today's social, environmental, and economic responsibilities to a future date, firms may fail to adapt and eventually lose their competitive advantage to producers in other jurisdictions which have been more prudent. Striking the balance is no easy task, but it is crucial.

Conclusion

The Council knows of no way to shelter Canadians from the forces of globalization that does not reduce living standards. The only viable option, in our view, is to compete from strength – to strive for higher productivity and to use the dividends that flow from that growth for the benefit of all.

That option will obviously demand creativity and commitment from managers and workers. It will also force governments to find more efficient ways to serve the public. Faster productivity growth gives Canadians more choice: a chance to strike a balance on governments' role which differs from that in other countries.

In short, we are challenged by market forces, but market forces do not shape our destiny. They do not decide what our living standards will be, nor do they define the role of governments in Canadian life. These outcomes will be decided by the ways in which Canadians – in the public and private sectors, employers as well as employees – respond to the challenge.

The Role of the Economic Council of Canada

The Economic Council of Canada provides decision makers with objective economic analysis and pertinent advice on key economic issues facing Canadians. It is able to identify economic developments that might have an impact on Canada in both the national and international scenes. The Council monitors the economic effects of major trends on the Canadian environment through careful research and analysis.

The Council has established its reputation as a pathfinder and an independent policy adviser. As a "pathfinder," it is able to identify new issues and give a different perspective to familiar ones for Canadians, because it has the knowledge base and research management skill needed to carry out innovative, applied research. In addition, the Council is able to benefit from the national focus created by the consensus deliberations of its Council members who are drawn from many different walks of life. The Council's statement entitled *Good Jobs, Bad Jobs* represents a good example of the Council acting in a pathfinder role. This report sheds light on a number of important social issues, including the polarization of employment into "good" and "bad" jobs and the linkages between the goods-producing and service industries.

As an independent policy adviser, the Council can examine general interest topics in ways that other research organizations do not address because of lack of resources or narrowness of focus. Its national mandate and nonpartisan standing make the Council uniquely qualified to contribute to public debate as an expert consultant. The Council's work on the Goods and Services Tax (GST) is a good example; its assessment of the proposal in the autumn of 1989 was undoubtedly a factor in the decision to lower the rate from the proposed 9 per cent to 7 per cent.

Another unique characteristic of the Council is its capacity to embrace perspectives from many regions and walks of life, because of the diversity of the Council members who play an integral role in shaping both the

research agenda and the interpretation of the research results.

The Council believes that developing a better knowledge base is an important first step in forging a national consensus and enabling governments to make wise policy choices. To this end, the Council is working more closely with university economists, other research institutes, and government organizations to exchange information on tools and methodology, research design, and the testing of new concepts, theories, and modelling approaches.

The pertinence of the Council's work can be measured by the extensive media coverage accorded to the release of its various reports and studies, including the Annual Review published each fall, by the continuous demand for consultations, speeches, and briefings, and by the degree to which its ideas are integrated into public policy debate. The Council's work has been used by ministers and officials in the federal and provincial governments, while many of its ideas have also captured the attention of business, labour, and other leaders in the private and nonprofit sectors.

In recent years, the Council has diversified its research agenda in order to address simultaneously a range of topics of interest to Canadians and to take advantage of the insights of other disciplines such as sociology and political science. In addition, the Council maintains ongoing contact with other research bodies across Canada in order to share information on work in progress, to avoid duplication of effort where feasible, and to explore possible joint projects. Finally, the presentation of its research results and policy advice documents has been modified to better suit the needs of decision makers.

The Council has assumed its share of fiscal restraint over the past six years, despite the rising costs of data gathering, research contracts, and publishing. It has been possible to absorb the effects of this restraint through efficiency gains in the management of its

research programs. In addition, the Council has sought out partnerships for research projects, or for specific subprojects, to offset these pressures and to maintain the critical mass of its research capacity. One of the side effects of fiscal restraint has been an increase in the demand for the work produced by the Council, since many departments rely on the Council for research that they themselves cannot conduct because of shrinking resources.

Stages of a Research Project

The hallmark of the Council's work is the combination of research and the recommendations arising from a consensus of its 28 members. From planning to publication, a typical research project reflects the unique character of the Council. As shown in the diagram, the Council's research activities encompass a series of steps ranging from testing and developing theory to empirical

study, strategic analysis, and finally policy design.

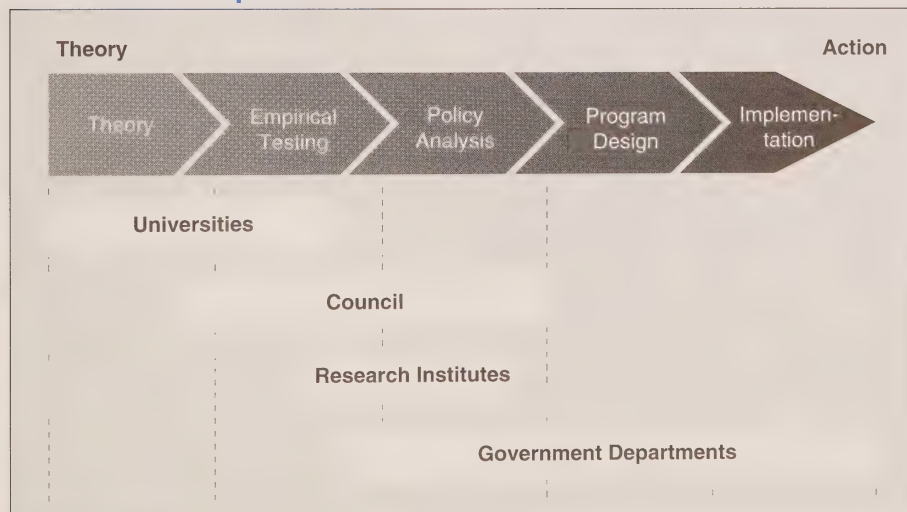
The first step is to identify and choose from among the many possible research topics that are relevant to the mandate of the Council. The Chairman, Deputy Chairmen, and senior research staff consult on an ongoing basis with Council members, as well as with a wide variety of economic and public policy observers across the country and internationally.

The next step involves exploratory or feasibility studies so that the research directors may develop a detailed work plan for a particular project, the principal areas of research, the resources required for its completion, and the general research time frame. An outline of the proposed research project is then presented to the Council for discussion.

The next priority for the project director is to put together the research team. Its members may include Council's staff economists or researchers from Canadian universities or other organizations working on contract or short-term assignments.

At the same time, an external advisory

The Research Spectrum



committee is set up. It is chaired by a Council member and includes two or three other Council members and a number of outside experts in the field being studied.

As the project unfolds, the advisory committee reviews the progress of research, assesses the preliminary findings, and ensures that the project is proceeding in accordance with the general mandate originally given by the Council. At about the twelfth-month mark, the project team submits a progress report at a Council quarterly meeting, where members have the opportunity to review the results of the research to date.

Once the research is completed, a draft Council consensus statement, including a series of proposed recommendations, is presented to the Council members for in-depth discussion. Once the draft is revised to reflect the views of its members, it is circulated to them for final approval. Members who disagree with the final version of the recommendations have the right to dissent.

Prior to the consensus statement's release, briefings are held for decision makers at both

the federal and provincial levels.

Following the publication of the Statement, the research team puts the finishing touches to the research report, which provides the technical details of the findings on which the Statement is based.

The most important pieces of research work that fed into the project are also published separately as "Studies" or "Working Papers." These publications remain the responsibility of their authors, and their findings are not officially endorsed by the Council members. They are distributed to the media, universities, governments, and other interested groups and individuals.

Finally, highlights of the research projects' findings and policy recommendations are published in an issue of the Council's quarterly magazine entitled *Au Courant*, which, as well, discusses other research work in progress and provides interviews and articles about the Council's activities, publications, and recently appointed members.

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Ken Woods
International Vice-President,
Canadian Office
International Brotherhood of
Electrical Workers
Willowdale, Ontario

Terms Ended

Jalynn H. Bennett
President and CEO
Jalynn H. Bennett & Associates Ltd.
Toronto, Ontario

Yves Guérard
President and actuary
Groupe Sobeco Inc.
Montreal, Quebec

Withdrew

Thomas J. Courchene
Director
School of Policy Studies
Queen's University
Kingston, Ontario

The Economic Council meets four times a year to discuss its research agenda. The meetings are chaired by Judith Maxwell, Chairman of the Council. During those meetings, members of Council review the findings from research projects and debate the content of draft consensus statements.

In 1990-91, meetings took place in Winnipeg (June), Montreal (September), and Ottawa (December and March). Highlights were:

Winnipeg Meeting – June 19 and 20, 1990

The main subject of this meeting was the Twenty-Seventh Annual Review which focused on the fundamental transitions that will be crucial to the performance of the Canadian economy over the long term.

Members were also briefed on progress reports from different research projects: education, immigration, social policy, and international trade.

Montreal Meeting – September 11, 1990

On this occasion, the members discussed preliminary findings on the immigration research project.

They were also presented with a proposal for a major research project on health care. The central objectives of the study were to examine the economic efficiency of the Canadian health care system; to explore the potential for improvements; and to make recommendations for a better design of the system.

An overview of the research plan for the Twenty-Eighth Annual Review was also submitted to the members.

Ottawa Meeting – December 4 and 5, 1990

The draft Consensus Statement on Immigration was the main subject discussed at this meeting.

An overview of the preliminary findings of the social policy research project was presented for discussion by the members.

A progress report of the research program of the Twenty-Eighth Annual Review was also examined by the members.

Ottawa Meeting – March 5 and 6, 1991

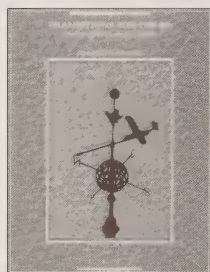
One of the main subjects for this meeting was the research findings of the Twenty-Eighth Annual Review which deals with the Canadian economic union.

There was a discussion of three issue papers on new research: government's impact on competitiveness of Canadian industry, human resource management in Canada, and a study of the Asia-Pacific Rim.

Council members also reviewed preliminary findings on the competitiveness and trade performance research project.

The Twenty-Seventh Annual Review

The Twenty-Seventh Annual Review, entitled *Transitions for the 90s*, presented a medium-term economic outlook that falls short of what the Council considers a desirable performance



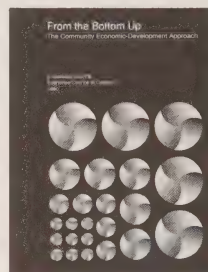
with respect to inflation, unemployment, and the federal fiscal position. It identified the rigidities in labour markets and the problem of regional economic specialization as two key factors that explain the high

level of structural unemployment in Canada. It set the objective of improving the efficiency of markets so that unemployment rates can drop to a level much lower than 7 to 8 per cent before inflation pressures begin to emerge. The Council identified two transitions that must be made during the 1990s: gearing up for new global realities, which will inevitably cause major changes in the composition of employment; and developing a new set of institutional relationships that will enable Canadians to control inflation with less pain.

Members of the research group included R. S. Preston, Project Director, and Jean-Pierre Voyer, Deputy Director. The Unemployment Issues Group included Surendra Gera, Project Leader, Miles Corak, and Sajjad Rahman. The Performance and Outlook Group was composed of Richard Roy, Deputy Director, Andrew Burns, Bobbi Cain, Pat Nevin, Haider Saiyed, and Marg Willis.

Community Economic Development

The Council released a Statement on community economic development, entitled *From the Bottom Up*. The document examined the Canadian experience with community-based



initiatives in economic development. It highlighted the business orientation adopted by many local development organizations and showed how this can play a positive role in the efforts of local communities to

break out of situations of economic stagnation and dependency. The Statement reviewed case studies of community development initiatives and showed the strengths and weaknesses of the community approach to economic development. It drew lessons from Canadian and international experience for community leaders. The Council concluded that community economic development merits public support and recommends ways in which this could best be provided. Among the questions it addressed: How should one select the communities to be supported? How should the provincial and federal governments' financial reporting requirements be reconciled with the need to preserve community leadership and flexibility?

The research team was directed by Tim O'Neill (on loan from the Atlantic Provinces Economic Council), François Lamontagne, Glenna Jenkins, Philip Priddle, and Dal Brodhead, Director of Background Case Studies.

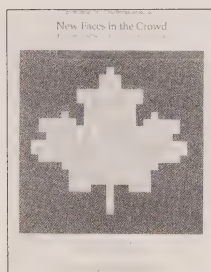
Immigration

The Council released a Statement on immigration. *New Faces in the Crowd* presented a new and surprising perspective on the economic effects of immigration. Both the ben-

efits and the problems have been greatly exaggerated, said the Council. In particular, per-capita income gains for the host community are very small, and immigrants do not take jobs away from Canadians. The smallness of the economic effects

lead the Council to put considerable weight on political, social, and humanitarian considerations in evaluating the right direction for future policy. The social impact of a changing mix of immigration, now that immigrants come increasingly from nontraditional sources in Asia, Africa, and the Caribbean, is extensively analysed. The Council assessed both the greater risks of social friction that this changing mix might entail and the value of the enhanced diversity associated with it. Weighing all four factors – economic, political, social, and humanitarian – the Council opted for a considerable expansion of immigration but argued that it should be phased in very gradually. It offered a recommendation on how to do this and 10 others aimed at ensuring harmonious integration of immigrants into the Canadian community.

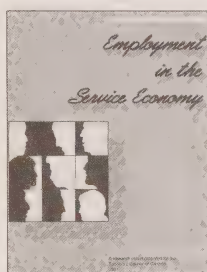
The members of the research team included Neil Swan, Project Director, Lou Auer, Denis Chénard, Angélique dePlaa, Arnold deSilva, Douglas Palmer, John Serjak, and Lorraine Milobar, secretary.



Employment in the Service Economy

The report entitled *Employment in the Service Economy* presented the Council's research on the growth of the service economy and its implications for employment. It details and

extends the analysis highlighted in *Good Jobs, Bad Jobs*, a statement released by the Economic Council in 1990. *Employment in the Service Economy* begins with an examination of service industries, the factors behind their growth, and

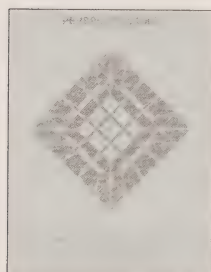


linkages between services and the goods sector. The report then focuses on how the labour market is being redefined as employment is increasingly concentrated in services: the adjustment problems facing certain groups, the growth of "nonstandard" jobs, trends in the skill content of work, the increasing importance of education and training, and the polarization of earnings. It concludes with a set of policy recommendations put forward by the Economic Council to enhance job creation and maximize the contribution of Canada's human resources in the changing environment.

The research team included Gordon Betcherman, Project Leader, Marcel Bédard, Christina Caron, Surendra Gera, Norm Leckie, Kathryn McMullen, Harry Postner, Syed Sajjadur Rahman, Tom Siedule, and two support staff, Juliette Beauger-Legault and Lucie Marier, secretaries.

Perspective 2000

The proceedings of the *Perspective 2000* conference were published, along with a synopsis prepared by the Council's staff. The conference, which was held in December 1988, through the "visions" of experts in a variety of fields attempted to identify some of the public policy issues of the turn of the century and beyond. The proceedings include the papers of 12 experts, formal commentaries on



each paper, summaries of the four major "blocks" of topics, an introductory framework essay, and an epilogue that pulls together major threads, themes, and conclusions. The synopsis is based on the material contained in the proceedings. Developed as the basis for a series of regional workshops and consultations across Canada, it concentrates on major themes concerning public policy issues and the associated research agenda, at the turn of the century.

Submissions

During the last year, the Council made a number of submissions to parliamentary committees.

May 10, 1990: the House of Commons Standing Committee on Consumer and Corporate Affairs and Government Operations to discuss the Goods and Services Tax (GST).

May 15, 1990: the Subcommittee on Expenditure Priorities of the House of Commons

Standing Committee on Finance to discuss the federal government spending restraint program.

May 22, 1990: the Standing Committee on Labour, Employment and Immigration to present preliminary findings of the Council's immigration research project.

May 24, 1990: the House of Commons Standing Committee on Finance to present a submission on Canadian monetary policy.

May 30, 1990: the Senate Standing Committee on Banking, Trade and Commerce to present a submission on Bill C-62 with respect to the GST.

November 15, 1990: the House of Commons Standing Committee on Finance to present a submission on Bill C-83 amending the Trust and Loan Companies Act and the legislative proposals contained in the document entitled *Reform of Federal Financial Institutions Legislation*.

December 3, 1990: the House of Commons Standing Committee on Finance to present a submission on the proposed new financial legislation Bill C-83 amending the Trust and Loan Companies Act and the legislative proposals contained in the document entitled *Reform of Federal Financial Institutions Legislation*.

February 5, 1991: the Subcommittee on Poverty of the House of Commons Standing Committee on Health and Welfare, Social Affairs, Seniors and the Status of Women to present a submission on child poverty.

February 27, 1991: the Commission sur la Culture de l'Assemblée nationale du Québec to present findings on its research project on immigration.

The Economic Council regularly holds a series of seminars during the course of the year open to academics, other researchers, government officials, and the general public. In some cases, these short and informal presentations serve to explain some of the Council's own research activities, while in other instances they give researchers working at other institutions an opportunity to explain current work to their Council colleagues. The Council is sometimes able to take advantage of a visit by a distinguished economist. The topics covered are varied. The following is a list of the seminars held during the 1990-91 fiscal year.

1990

April 5, 1990: Richard Caves, Harvard University, "Canadian Firms Fight Back – Adjustment to International Competition: Short-Run Relations of Prices, Trade Flows, and Inputs in Canadian Manufacturing Industries."

April 11, 1990: Richard Lipsey, Simon Fraser University, "Could Economists Have Made 'Made in America'?"

April 24, 1990: Helen Sinclair, Canadian Bankers' Association, "Competitiveness of the Financial Service Sector: The Need to Know More."

May 9, 1990: Abraham Hollander, Université de Montréal, "Umbrella Pricing to Attract Early Entry of a Firm in the Market."

May 18, 1990: Oliver Blanchard, M.I.T., "Unemployment and Wages: What We Have Learned from the European Experience."

June 18, 1990: Gilles Grenier, Université d'Ottawa, "Competition between Immigrants and Native-Born Canadians on the Labour Market."

October 11, 1990: Peter Howitt, University of Western Ontario, "Money and Growth Revisited."

November 7, 1990: Robin Boadway, Queen's University, "Federal-Provincial Fiscal Relations: Some Consequences of Recent Constitutional and Policy Developments."

December 7, 1990: Gregory Duncan, University of Michigan, "Dynamics of Poverty and Social Assistance."

1991

January 23, 1991: Peter Kihn, McMaster University, "Mandatory Notice and Unemployment: Evidence from the Ontario Employment Standards Act."

February 13, 1991: Richard Harris, Simon Fraser University, "Real Exchange Rate Effects on Canadian Industrial and Regional Resource Allocation."

The Twenty-Eighth Annual Review – The Canadian Economic Union

The main theme of the Twenty-Eighth Annual Review will be the evolution of economic and fiscal linkages in Canada in the context of the new political and economic realities. The Review will study the present state of the economic union and Canadian fiscal federalism at a time when the federal government is facing serious financial difficulties and world trade patterns are in the throes of major transformations. A variety of economic issues relevant to the current constitutional debate will be examined. The advantages and disadvantages of various proposals for reshaping the Canadian federation will be pointed out.

The review of the state of the economic union will examine such topics as recent trends in provinces' trade with other provinces and with the rest of the world, the mobility of workers between provinces, and policy coordination problems. Another important question slated for investigation is the determinants of trading activities in each province; who has control over the local economy – local interests, residents of other provinces, or foreign interests?

Among the aspects of fiscal federalism to be explored in the Review will be the pattern of government expenditures over the past 25 years by program category and by province. Discussions will attempt to pinpoint the key factors that will influence expenditure growth in the years to come, as well as the likely impact of a redistribution of responsibilities on the financial situation of various levels of government and on the economic welfare of their citizens. A number of issues related to intergovernmental transfer payments, interprovincial tax harmonization, and the equalization system will also be discussed.

Performance and Outlook

This research group is responsible for maintaining and developing macroeconomic, general equilibrium, demographic, and special purpose models, as well as for ensuring database management related to macroeconomic data at the Council. The group also performs periodic assessments of the medium-term economic outlook. The analytical material related to these assessments forms the bases for the macroeconomic simulations that appear each year in the Annual Review and is also used as input to the Pacific Economic Outlook, sponsored by the Pacific Economic Cooperation Conference.

Current research is focused on the size of the gap that will exist between actual and potential output in calendar year 1992, the conditions that might make it difficult to close this gap, and the questions that may arise as the gap is closed. In addition, the Council's models will be used to study the impact of developments in the world oil market, the impact of external credit condition which may cause the current downward trek in domestic interest rates to change course due to demands on the global pool of savings, stemming from the U.S. Savings and Loan problem, the huge U.S. internal deficit, the U.S. external deficit, German reunification, Japanese infrastructure investment, and the transition from a planned to a market economy underway in Eastern Europe. In addition, the Council's models will also be used to study the division of powers issue, including the impact on macroeconomic performance and welfare. Finally, the Council's models will be used to assess the potential for current institutions to foster and maintain sustained, noninflationary growth, including the connections between the choice of policy mix and rigidities in labour markets.

A number of projects are under way that will assess the relevance of past policy an-

chors as a guide for the future framework of policy. The research focuses on whether opening of temporary gaps between potential and actual output can do permanent damage to Canada's productive potential.

As input into the Twenty-Eighth Annual Review, the research group is also developing a number of analytical tools to assess the evolution of federal and provincial spending patterns under a reorganization of spending and taxation authority between levels of government.

Social Policy

The Council's research on social policy has been completed and a research report is being prepared. This research report will present the results of the Council's analysis of the nature and scope of poverty, including new information on its dynamics. Measures of transitions into and out of poverty, and of its duration, have been derived from a unique longitudinal database that has been developed to track a large sample of individuals and families over a five-year period. This same database provides information on the dynamics of the entire income distribution, on the various risk factors associated with poverty, and on the extent to which the major income security programs provide financial assistance to Canadians during periods of low income. In addition, the report will present the Council's findings with respect to the effectiveness of various income security programs and associated support services in providing such assistance and in helping the poor to become self-reliant. Special attention will be given to the economic well-being of single parent families and on the effectiveness of social policies relevant to this subgroup of the population which is particularly vulnerable to poverty. Finally, the report will discuss the implications of this research and analysis for public policy, especially as it relates to Canada's major income security programs.

Education

To ensure the country's survival and prosperity in a context of globalization of the economies, Canada will have to increase its productivity and competitiveness. Education and training can play a major role here. Although it is clearly understood that the goals of education are much broader, the Council's education project focuses primarily on those economic aspects of education which have a direct impact on productivity and competitiveness.

The quality and efficiency of the education system are the main themes of the project. The quality of the education system refers to broad outcomes, including academic results, drop-out rates, graduations, and the degree of labour market success. International, interprovincial, and intertemporal comparisons of student achievement are examined, as are the socioeconomic factors shaping educational attainment. Vocational skills and training in industry including partnerships, cooperative programs, and the role of the private sector are another major focus.

The efficiency of the education system is the other major theme of the education project. It includes a description and an analysis of the cost structure of provincial education systems and an analysis of the teaching profession that examines the qualifications and earnings of teachers. The intimately related question of financing of education will also be part of the analysis, as will new estimates of the rates of return to education at various levels and fields of study.

Finally, various special topics will be included in the framework of the research. Among them are women's issues, distance education, "special programs," aboriginal education, early childhood education, and case studies of innovative approaches to education and training.

Unemployment

The Council will publish a compendium report on unemployment issues in Canada. The purpose of this report is to improve our understanding of the recent unemployment experience in Canada, particularly in the 1980s.

The study focuses on issues such as the upward trend in the aggregate unemployment rate, the persistence of unemployment, and the disparity between regional unemployment rates. The analysis is motivated by two questions. First, are there any lessons to learn from past experience which may help to minimize the costs – human and economic – of job loss in the 1990s? Second, why was the national unemployment rate so high and slow to decline in the 1980s after seven years of economic expansion, especially when there is considerable evidence that major sectors of the economy were operating at full capacity over this period.

The compendium will contain a set of papers organized around four themes: the nature of unemployment in Canada; the persistence of unemployment; the role of wages in unemployment; and full employment policies in Canada. Taken together, these four themes will offer the reader an opportunity to understand the various dimensions of the unemployment problem. The articles will be preceded by an introduction that will provide an overview of the unemployment situation in Canada, synthesize the major arguments, and summarize the conclusions contained in the set of papers.

Canada's International Competitiveness and Trade Performance

This project examines the past trends and future prospects of the competitive position of Canada's industries vis-à-vis our major trading partners. The analysis is carried out by developing various indicators of competitiveness by industry and by our major trading partners. The indicators include measures of productivity growth, costs, export market shares, import penetration, adoption of new technologies, and so on. The productivity and cost analysis covers both manufacturing and nonmanufacturing industries in Canada and the United States. The influence of changes in productivity and cost competitiveness on Canada's trade performance in various global regional markets is also examined. In addition, the linkages between productivity growth and technical change are developed in this research.

Furthermore, this study determines the characteristics of business firms that are associated with the use of advanced manufacturing technologies in Canada and compares the extent of the use of advanced manufacturing technologies in selected Canadian and U.S. industries. The purpose of this comparison is to determine whether Canadian use of advanced manufacturing technologies lags behind the United States.

The project investigates the role of multinationals in shaping Canada's international competitiveness and the extent of intracorporate trade. This research also analyses the causes and consequences of large swings in the Canadian dollar for Canada's flows and employment levels.

This research has important implications for Canada's economic policies. Public policies designed to improve national productivity and to stimulate technological changes will be reviewed.

Governments' Impact on Competitiveness

The purpose of this study is to examine the impact of government on the competitiveness of the Canadian economy. It will assess the effect of major elements of federal, provincial, and municipal policies with respect to expenditure, taxation, and regulation on the ability of the Canadian economy to meet the test of international markets while expanding the real income of Canadians.

The project will have three phases. Phase I will develop the databases and appropriate educational materials to demonstrate what government does in Canada, how this compares to other relevant jurisdictions, and how or whether this has changed in the postwar period. In this regard, it will provide an economic and historical context for the evolution of government in Canada. Phase II is the detailed research to delineate more fully the issues and the appropriate policy responses in each of the research areas set out below. Phase III will be the synthesis and production of a consensus document for the Council.

The study will examine the ways in which all levels of government have sought to improve the quality of life of Canadians and whether and how their effectiveness has changed in the postwar period as a result of technological change, increased globalization of trade, and/or increased mobility of labour, capital, and information. In general, the study will consider both macroeconomic and microeconomic issues related to both the positive and negative effects of government on the competitiveness of the Canadian economy.

Health Care

The central objective of this project is to provide information to decision makers, public and private, that will help them cope with difficult health care choices.

The Council intends to identify the underlying causes of the rise in health expenditures, explore how much of it comes from the aging of the population, how much from more intensive treatment, and how much from the adoption of more advanced medical technologies.

The study will try to estimate what savings could be achieved by doing what's being done now more cost effectively, what could be saved by changing the mode of health care delivery, and how the system could be modified and still provide high-quality care for all Canadians.

The Council's analysis will build on earlier work but differ from it in several ways. Much of the traditional research has focused on the costs and services of different health care institutions. The research project will expand on this approach and attempt to link the expenditures and service inputs to the real outputs of the system: improvements in health status, expansion of life span, and reduction in mortality. As well the Council will examine socioeconomic issues and the potential for more effective preventive care. Cost/benefit analysis will be used to find out how the system could be improved and what incentives would be required to accomplish it.

Inevitably this kind of economic analysis will become entangled in ethical issues. Health providers are trained to do all they can to preserve life and there is a societal expectation that life should be saved at any cost. But people have begun to question the merit of using the most sophisticated life-saving technologies in treating the terminally ill. Unless we address such issues we cannot come to grips with the question of optimal economic allocation of our health resources.

This will require not only a critical evaluation of the economic options but also a sensitive treatment of the underlying ethics.

Industrial Adaptation

The Council is pursuing the possibility of research in the area of industrial adaptation. This research would focus on the nature of changes that are developing within industries – at the firm level. Several topics are being pursued that use microdata on firm and establishment behaviour. They include the extent to which firm closings have recently increased and whether basic structural shifts are taking place in the size distribution of firms; the extent to which new jobs are being produced in small as opposed to large firms; and the extent to which the decline in foreign ownership may have begun to affect the competitiveness of Canadian industries. The project would then focus on the manner in which government policy has affected the ability of the industrial system to adapt to change. A set of case studies would examine how technology transfer, human relations, and government policy combine to facilitate or hinder the process of adaptation that is being demanded of the industrial system.

Asia-Pacific Research

The Council in association with the Thailand Development Research Institute (TDRI) has just launched a joint research study analysing the Asia-Pacific region. This study will be part of a broader arrangement the Council has established with this institution under the auspices of the Canadian International Development Agency (CIDA). In this research project, the Council will specifically examine the prospects for enhanced economic relations between Canada and this region. The TDRI will focus on intra-Asia-Pacific

trade and investment. Among the issues the Council will address in the study are: the pattern of future Canadian trade, the future of the Asia-Pacific economies, the prospects for Canadian exports to and investments in this region, and investment inflows from the Asia-Pacific countries to Canada.

Annual Report, 1989/90

Judith Maxwell
(EC1-1990 – available free of charge from the
Economic Council)

Annual Review

Twenty-Seventh Annual Review:
Transitions for the 90s
(EC21-1/1990; \$11.95 in Canada and US\$14.35
in other countries)

Council Statements

*From the Bottom Up: The Community
Economic-Development Approach*
(EC22-170/1990; \$4.95 in Canada and US\$5.95
in other countries)

*New Faces in the Crowd: Economic and
Social Impacts of Immigration*
(EC22-171/1991; \$7.95 in Canada and US\$9.55
in other countries)

Research Report

Employment in the Service Economy
(EC22-172/1991; \$21.95 in Canada and
US\$26.35 in other countries)

Conference Proceedings

*Perspective 2000: Proceedings of a Conference
Sponsored by the Economic Council of
Canada, December 1988*
(EC22-167/1990; \$32.95 in Canada and
US\$39.55 in other countries)

Perspective 2000: A Synopsis
(EC22-168/1990; \$4.95 in Canada and US\$5.95
in other countries)

Research Studies

*Adjustment to International Competition:
Short-Run Relations of Prices, Trade Flows,
and Inputs in Canadian Manufacturing
Industries*
Richard Caves
(EC22-165/1990; \$6.50 in Canada and US\$7.80
in other countries)

*Structural Change and the Adjustment
Process*
John Baldwin and Paul Gorecki
(EC22-166/1990; \$20.95 in Canada and
US\$25.15 in other countries)

*Two Steps Forward: Human Resource Man-
agement in a High-Tech World*
Gordon Betcherman, Keith Newton, and
Joanne Godin
(EC22-169/1990; \$5.95 in Canada and US\$7.15
in other countries)

Periodical


Au Courant, Vol. 11, Nos. 1, 2, and 3
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Brochure

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have audited the statement of operations of the Economic Council of Canada for the year ended March 31, 1991. The financial statement is the responsibility of the Council's management. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the results of operations of the Council for the year ended March 31, 1991 in accordance with the accounting policies set out in Note 2 to the financial statement.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
June 4, 1991

Economic Council of Canada

Statement of Operations Year ended March 31, 1991

| | 1991 | 1990 |
|---|-------------------|-------------------|
| | \$ | \$ |
| EXPENDITURE | | |
| Economic research and policy analysis | | |
| Salaries and employee benefits | 5,470,615 | 5,027,359 |
| Employee termination benefits | 39,199 | 45,288 |
| Supplies, furniture and equipment | 544,294 | 311,625 |
| Professional and special services | 498,261 | 674,425 |
| Travel, communication and publication | 188,233 | 211,679 |
| Rental, repair and maintenance of equipment | 26,660 | 157,780 |
| Miscellaneous | — | 20 |
| | 6,767,262 | 6,428,176 |
| Consultation and public information | | |
| Salaries and employee benefits | 1,904,134 | 1,795,307 |
| Employee termination benefits | 60,259 | 55,295 |
| Travel, communication and publication | 149,116 | 148,118 |
| Professional and special services | 136,094 | 112,707 |
| Council meetings | 102,370 | 99,329 |
| Supplies, furniture and equipment | 13,278 | 9,834 |
| Rental, repair and maintenance of equipment | 3,304 | 5,908 |
| Miscellaneous | — | 114 |
| | 2,368,555 | 2,226,612 |
| Administration | | |
| Salaries and employee benefits | 916,195 | 755,990 |
| Accommodation | 715,294 | 715,294 |
| Travel, communication and publication | 174,203 | 141,468 |
| Professional and special services | 120,642 | 105,691 |
| Supplies, furniture and equipment | 92,407 | 133,069 |
| Rental, repair and maintenance of equipment | 63,725 | 57,292 |
| Miscellaneous | 2,014 | 1,205 |
| | 2,084,480 | 1,910,009 |
| | 11,220,297 | 10,564,797 |
| REVENUE | | |
| Non-tax revenue | | |
| Refunds of previous years' expenditure | 13,785 | 13,603 |
| Miscellaneous | 5,191 | 86,920 |
| | 18,976 | 100,523 |
| Net cost of operations (note 3) | 11,201,321 | 10,464,274 |

The accompanying notes are an integral part of this statement.

Approved by the Council:



Judith Maxwell
Chairman



Robert Woods
Director, Finance and Administration

Economic Council of Canada

Notes to the Statement of Operations

March 31, 1991

1. Authority and purpose

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule II of the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in the medium and long term in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Revenue recognition

Revenue is recorded on the cash receipts basis in accordance with the Government's accounting policies.

(c) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(d) Services provided without charge

Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(e) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

| | 1991 | 1990 |
|--|------------|------------|
| | \$ | \$ |
| Privy Council Vote 25 (Vote 20 in 1990) | 9,252,000 | 8,532,000 |
| Supplemented by Treasury Board Vote 5 | — | 185,000 |
| | 9,252,000 | 8,717,000 |
| Lapsed | — | 9,897 |
| Government-wide cost reduction | 119,893 | — |
| | 9,132,107 | 8,707,103 |
| Statutory contributions to employee benefit plans | 1,146,000 | 983,000 |
| Total use of appropriations | 10,278,107 | 9,690,103 |
| Add: Services provided without charge by other Government departments | 942,190 | 874,694 |
| Less: Non-tax revenue | 18,976 | 100,523 |
| Net cost of operations | 11,201,321 | 10,464,274 |

Economic Council of Canada

Notes to the Statement of Operations (concl'd.)

March 31, 1991

4. Agreement with CIDA

In June 1990, the Council and the Canadian International Development Agency (CIDA) entered into an agreement under which the Council will, over a six-year period, assist the Thailand Development Research Institute in strengthening its abilities in various areas. A budget of \$7.6 million has been established for the project which will be fully funded by CIDA. During the 1990-91 fiscal year, approximately \$373,000 was recovered from CIDA for the expenditures paid by the Council. These expenditures are not recorded in this statement of operations for 1990-91.

5. Lease Commitment

On April 25, 1990, the Economic Council of Canada entered into a buy for lease agreement with the Department of Supply and Services to purchase a VAX computer. The asset was valued at \$416,600 using an implicit interest of 9.64 per cent, with the obligation being liquidated over the lease term of four years through annual lease payments of \$104,150.

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ANNUAL REPORT

Economic Council of Canada




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Minister of Supply and Services Canada, 1992
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Le Rapport annuel est aussi disponible en français.



Economic Council
of Canada

Chairman

Conseil économique
du Canada

Présidente

June 30, 1992

The Right Honourable Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I hereby present the last annual statement of the
activities of the Economic Council of Canada for the
fiscal year ending March 31, 1992, as required by the
Economic Council of Canada Act.

Yours sincerely

Judith Maxwell
Chairman

The Institution

On February 25, 1992, in setting out streamlining measures in the Federal Budget, Finance Minister Mazankowski announced that the Economic Council of Canada was to be closed, along with a number of other agencies. Work to wind the Council down was undertaken almost immediately, with the objective of closing the doors at the end of June, 1992. A number of projects were cancelled, and work was accelerated on projects that were near completion. Several ongoing projects will be completed under new sponsors. All models have been documented and made available to interested researchers in governments, and in some cases, in universities.

Accordingly, this is the last Annual Report of the Economic Council of Canada.

The Economic Council of Canada was created on August 2, 1963 by an Act of Parliament. Much of the discussion that led to the Council's creation centred on a need for longer-range study and analysis, and various European advisory and planning bodies were examined as possible models. The Economic Council of Canada Act received all party support when it was tabled in the House of Commons. The Act established a consultative and a planning role in a broad macro-economic framework. Prime Minister Pearson's view of the Council's role is evident in his speech to the House in August 1963:

The government's hope... is that we can establish an Economic Council of Canada which will be an effective instrument for creating in Canada this kind of economic consensus, this kind of economic understanding that we need if we are to make the most of our resources, achieve and maintain high levels of employment, make our economic growth adequate for that purpose and compete successfully, as we must, in the new trading world.

The work of the Council concentrated on the examination of structural issues – identifying underlying trends, defining shifts in those trends, explaining the basic forces that affect the well-being of Canadians. In addition, the Annual Review was a vehicle to examine, on a regular basis, the performance and potential of the Canadian economy.

The Council consisted of a board appointed by the Prime Minister, comprising a Chairman, two Deputy Chairmen, and up to 25 members. The Chairman and Deputy Chairmen managed the work of a staff of economists and other specialists. The members, who represented various sectors of Canadian society and regions of the country, helped in selecting research topics, reviewed research results, and on the basis of these results developed policy advice for governments and the public.

The clients of the Council included legislators and public servants at federal, provincial, and regional levels of government. Its work was also widely used by the private sector (business and labour), the national, regional and local media, academic and economic institutions and special interest groups.

The Council provided economic information in the form of in-depth analysis and advice, which was developed from accurate, complete and timely research and from consultation with Canadians. The research was reviewed by members of the Advisory Committees of the various research projects, and the resulting advice flowed from consensus discussion by all Council Members. As the Ottawa economic consultant Michael McCracken stated upon hearing the news of the closing of the Council, "anyone who calls himself an economist in Canada will have on his bookshelf a number of Council publications."



John Deutsch (1911-1976)

The Council's first Chairman, **John Deutsch** (1963-67) was a true pioneer. The early Annual Reviews set out clear goals for economic performance, and the diverse group of Council Members learned how to build a consensus under his skilful chairmanship. Research at the Council for the first time experimented with potential output analysis techniques recently begun in the U.S. In 1966, the Council received the first of many economic research requests by the Prime Minister – the initial one dealing with the relationships of prices, costs, productivity and incomes to sustained economic growth.

The six chairmen who followed in his footsteps have contributed their own reflections on the closing of the Council in this last Annual Report.

Under the leadership of **Arthur Smith** (1967-71), the commitment was made to develop the large-scale *CANDIDE* econometric model which served among other things to show, in quantitative terms, how implementing the Council's targets and recommendations would affect each sector of the economy.



Arthur Smith, Professor, Brock University

Professor Smith reflects: "It is important to remember that the Economic Council Act was a non-partisan political initiative of the newly elected Liberal Government in 1963 which was passed unanimously in Parliament. The Council has never, over a period of nearly three decades, been seriously accused of political influence or partisanship. Its role as an independent advisory body was established in its early years. Although it was established as a federal institution, its basic terms of reference required it be a national advisory body, and from the outset it could focus on areas of provincial as well as federal jurisdiction, and also on areas of private, as well as government, decision making.

"There are three major contributions the Council has made, which I consider to have been generally undervalued:

"One was the contribution of the Council to education, which in turn has three major components:

- a. **The generation of broader and better public understanding of coherent national goals and policies for achieving them in consistent ways.** Much of this was indirect, through the media and other channels of communication to the general public. To the extent that this led to improved and more widely acceptable policy decisions, it was especially important in today's more complex society.

Both the determination of national goals and the selection of appropriate strategies and programs for attaining them appear to be increasingly contentious. In these conditions, better public understanding of relevant issues is no trivial matter.

- b. **Teaching in the educational system about public policy analysis and policy-making.** The Council has efficiently produced a large volume of publications of many kinds, including Annual Reviews and other Special Reference and Consensus Reports, as well as staff, specialized and more technical studies and papers. These have constituted a valuable collection of printed materials that are widely used as texts or supplementary reading materials for university and other courses, and have strengthened the base for the education and training of future public policy analysts, advisors and decision makers.
- c. **The stimulation of more applied research in educational institutions.** Without stimuli from the Council, the balance of social science research in academia would have undoubtedly become more theoretical and abstract. It is principally in applied research that Canada experiences its most woeful limitations and deficiencies.

"Second, the Council has played a remarkable pioneering role in the development of new information and analysis. In its early days, for example, it undertook totally new initiatives in exploring such issues as medium- and longer-term investment planning, productivity performance in fields such as education and health care, and the definition and analysis of poverty. This has been continued through its more recent focus on service industry productivity, jobs and incomes, and on the strengths and weaknesses of applied industrial technology. High quality pioneering research of this kind has not emerged and is not likely to emerge, from academic institu-

tions or from private, nonprofit research organizations, which are generally unable to attract adequate resources for such innovative thrusts in their activities, or to have such ready access to specific information.

"Third, the Council has become a unique national asset as a centre of research and specialized information and analysis. In the past, Royal Commissions and National Task Forces or Committees have assembled outstanding leadership, professional resources, information and data bases to focus on specific issues and problems. But when their work was done, the assembled knowledge and expertise was dispersed. Valuable information and analysis was relegated to archives. Re-examination of key issues under new and changing conditions was not readily possible – except, again, as costly and transient affairs. The potentials, economies and strengths of the Council as a kind of ongoing Royal Commission have, I believe, become undervalued.

"I have hope that the Council, because it has proved to be a valuable national organization, will be re-invented in some form in the near future. Its roles as a consensus body, as an independent advisory body, as a national policy research body, as an important educational body, and as a body dedicated to medium- and longer-term perspectives about Canada's future, are simply too important to lose."



André Raynauld,
Professor, University of Montreal

The Council's orientation was modified by **André Raynauld** (1971-76), who placed particular emphasis on researchers' technical skills in establishing specialized research groups. Dr. Raynauld states: "Without question, the two most important research projects completed during my tenure as Chairman of the Economic Council were those on trade liberalization and deposit institutions. The reason I consider these projects more significant is that they had tangible consequences: the first led to the 1989 Free-Trade Agreement between Canada and the United States, and the second prompted a sweeping series of measures designed to deregulate financial markets, including the 1980 amendment to the Bank Act allowing foreign banks to enter the Canadian market. In both these areas, the Council acted as a trailblazer, in that it focused the attention of governments on the issues and paved the way for public acceptance of the new policies – policies that might well have proved impossible to implement without the Economic Council's pioneering efforts.

"Part of the Economic Council's ongoing mandate is to prepare an **Annual Review** of overall economic conditions. During my term as Chairman, these reviews encountered strong opposition from the Department of Finance, which argued that the Council was

delving into short-term issues that not only were not its concern, but that more properly fell within the purview of the Department of Finance under its responsibilities for tax and fiscal policy. The Council eventually agreed to focus its work on the medium- and long-term implications of social problems and options for growth and, in particular, to assess the economic context and suggest appropriate policy directions based on three-year to five-year performance indicators.

"These changes did not satisfy the Minister of Finance, and I still recall meetings with the Prime Minister where it was suggested that the Economic Council Act be amended to eliminate the **Annual Reviews**. However, the Prime Minister was resolutely opposed to a legislative solution to a problem that he felt was essentially of secondary importance.

"While the very nature of the Economic Council's projects has always made it a leading research institution, it was also an organization dedicated to fostering communication among social partners. The 25 members of the Economic Council represented labour, business and a variety of occupations. Because they took responsibility for the work published by the organization, consensus was required on the interpretation of the research results and the formulation of policy advice. It fell mainly to the Chairman to seek out the right formula for compromise, and I vividly remember the countless meetings, tête-à-tête, one-on-one sessions, and friendly working luncheons I had with various members in my attempts to change or rework a particular set of recommendations in order to win members' support and achieve the necessary consensus. Again, it was *Looking Outward*, the report on trade liberalization, that demanded the most intense and difficult negotiations before consensus was finally reached. The report ended up receiving unanimous approval from Council members, something of which I have always felt very proud.

"In 1973 and 1974, the Council organized

and hosted two extremely ambitious national conferences on economic issues. They were, in a way, standing conferences, because some twenty sectoral committees were formed that worked for several months prior to the annual general assemblies. The purpose was to identify and anticipate problems affecting the major industrial groups and to propose appropriate action. Those conferences were certainly the most systematic attempt ever mounted in Canada to institute consultation between economic agents. The very success of the exercise led to its abandon, however, since labour representatives decided that they did not have the manpower to defend their interests in all the committees."



George Post, Commission Secretary,
Indian Claims Commission

Under the guidance of **George Post** (1976-77) the Council completed *Living Together* (a study of regional disparities) and *Efficiency and Regulation: A Study of Deposit Institutions* (financial markets) which called for greater competition in Canadian financial markets. Many of its recommendations were reflected in the 1980 revision of the Bank Act.

Dr. Post reflects: "Government agencies come and they go. The Economic Council is now gone and I was saddened by its passing. Admittedly, twenty-eight years is not a bad run for a federal agency and may even seem

long-lived for one whose mandate was to question entrenched orthodoxies. I try to convince myself that its passing may serve a useful purpose by rekindling the debate about the kind of "think tanks" Canada needs and how they should be financed and located for maximum effectiveness.

"Canada has been well served by its social scientists over the past half century and the Economic Council is one of the institutions that has brought its contribution to bear on the policy issues that faced the country. Social policy-making is a multi-staged process involving academic speculation, factual analytic research, germane political debate and effective legislatures. Canadians have benefitted from constructive debates concerning such issues as the contribution of free trade to industrial strength, compensation for disparities in regional earnings, and the characteristics of a sound financial system. The Economic Council played a major role in providing careful factual analysis and recommendations about these and many other important issues.

"The relevant debate about social policy is not whether Royal Commissions are more costly than continuing institutes nor whether private sector institutes can be more outspoken than government agencies. The real problems are to provide a continuing commitment to factual enquiry without becoming a "predictable point of view" and to develop and maintain a competent professional staff without being captured by any one group of professionals. The Economic Council was assisted in dealing with these problems by having strong board members with practical experience that they brought to bear on the issues under study. When I joined the Council in 1975, I thought that the economists on the staff were the key people; by the time I left in 1978, I was convinced that the contribution of board members was far more significant. The truth of the matter is that there needs to be a productive synergy between

board members who define the issues to be researched, and the staff members who produce innovative, factually-based analysis of those issues around which a policy advice consensus can be built. Productive synergies did happen at the Economic Council and I am proud to have been involved in some of them.

"Useful research requires sustained effort, careful timing and tireless communication since there are far more vested interests than there are societal change agents. The Council and its staff had a significant impact on the policy parameters within which we live today. I trust it will not take Canadians too long to invent a replacement institution."



Sylvia Ostry, Chairman,
Centre for International Studies,
University of Toronto

Sylvia Ostry (1977-79) was successful in raising the Council's profile by increasing support for its work. The Prime Minister gave the Council two references during her chairmanship – for studies on the economic impact of government regulation, and on the economy of Newfoundland. Council was also asked to set up a Centre for the Study of Inflation and Productivity, which operated for about a year.

Dr. Ostry remembers: "My first experience with the Economic Council came when I was asked by John Deutsch to help prepare a

study on full employment in cooperation with Frank Denton. I was an assistant professor at McGill and was overawed at the prospect of becoming involved with such an important institution. I was allowed to sit in, as an observer, at the Council meeting where our report was debated. There I saw John Deutsch in action. I shall never forget the display of his consummate skill at steering the meeting to consensus after a vigorous and often heated debate. He explained to me that the role of the Council – a **national** not **federal** institution – was to improve public understanding of basic economic policy. Education and public discussion were the best routes to better policy making. The independent, highly respected and objective research of the Council was its *raison d'être*. The role of the Council was to communicate to as wide an audience as possible.

"I never forgot this lesson. I have preached his message in many international meetings and advocated the Council as a model to many countries. When the demise of the Council was announced, I was stunned, then angry, then deeply saddened. Today, when profound global structural changes are transforming all countries in the world, if the Council didn't exist, we should have invented it. Instead, it was destroyed."



David Slater, Retired

The Council became more technically oriented under the leadership of **David Slater** (1980-85) during a period that included the worst recession since the 1930s. A number of important reports were published. He reflects, "I had the good fortune to be in turn Director, Acting Chairman, and Chairman between 1979 and 1986. The work of the Council was to serve national and regional objectives, not narrowly those of the federal government. The work was to concentrate on issues and problems "just over the horizon" of immediate policy concern, rather than the short run.

"During my term, the Council received and executed two special reference studies, with extra funding. One was a comprehensive study of Regulation and Deregulation; the other was on the Newfoundland Economy. I am still proud of those two pieces of work, both of which still are relevant. In addition to the Annual Reviews which were required under the Council's Act, the Council took initiatives on Pensions, on the Taxation of Income from Capital, on Western Canadian Economic Development, on Financing Confederation, on Technology and Innovation, and on the Financial System.

"From most of a lifetime of work on the fringes of or in government agencies, I am still convinced that most government departments, most of the time, are unable to retain substantial, high quality resources in research

on issues "over the horizon." The private sector and academic communities can now make more effective contributions to such issues than they did three or four decades ago. But they have other objectives; and they typically have very limited resources. This is particularly so for research work which requires sustained effort over several years, involving masses of data. A case can be made for improved support from the private sector and the academic community. A case can be made for some reorientation of work by bodies like the Economic Council. But I am still convinced that there is an important continuing role for a body such as the Economic Council of Canada in concentrating the interest and intellectual capital available in the country on many of the medium- to long-run issues of continuing importance. I believe that the Council was "worth its keep" during my tenure, and has continued to be "worth its keep."

When **Judith Maxwell** became Chairman in 1985, the Council began to put more effort into policy analysis. A faster turn-around time and a greater diversity of research topics resulted in a more regular flow of studies. Project directors began using more input from other disciplines such as sociology and political science. There was a strong commitment to communicating the work of the Council through a strong publicity program which included media relations, speeches, seminars, conferences, frequent appearances before parliamentary and cabinet committees – both federal and provincial.

Recent Reports: 1991 and 1992

With the closing of the Council, a number of important projects which were in their early stages were cancelled. Nevertheless, an important list of statements were published, and several more which were well underway will continue under different management.



The Twenty-Eighth Annual Review, A Joint Venture, published in October of 1991, examined the trade and commercial ties between the provinces. It assessed the state of the economic union and examined the

economic consequences of a number of different options for fiscal arrangements in a changing federation. The Review also provided new information about unemployment experience of workers by age and by sex, and studied the impact of the recession and changes in the structure of Canadian industry on unemployment patterns. The Annual Review team was headed by Jean-Pierre Voyer who was assisted by Kei Moray, J. R. Nightingale, D. Péloquin, Andrew Burns, and Marcel Bédard. The Medium Term Outlook chapter was prepared by the Performance and Outlook Group under the leadership of Ross Preston.



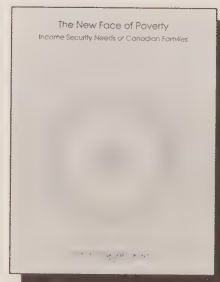
Pulling Together, a consensus report on Productivity, Innovation and Trade, had strong messages for labour, business, and government alike. It warned that slow productivity growth and lack of

innovation in both corporate organization and competitive products increased the risk of a lower standard of living in the future. The research team was led by Sunder Magun, and consisted of Someshwar Rao, Raynald Létourneau, and Tony Lemprière.



The Council's last Statement was on the subject of education and training. *A Lot to Learn* was released in April, not as a Consensus Statement but rather as a "statement," which had been strongly influenced

by the Council members who were no longer in office. The research reviewed the quality of education in Canada and compared the Canadian system with those in Japan and Germany. It pointed out that secondary school students are ill prepared to enter the work force. The study also reviewed job retraining and apprenticeship or work experience programs. Keith Newton was the project leader and members of his team were Kathryn McMullen, Tom Schweitzer, Patrice de Broucker, Gilles McDougall, and Tom Siedule.



An important study on poverty is to be released prior to the Council closing its doors in June. This in-depth study is based on a unique data set built in cooperation with Statistics Canada and the provinces of Quebec and

Nova Scotia. The data enabled researchers to

track families over time and thus provided the first systematic insights into the duration of poverty in Canada. Brian Powell provided the leadership in launching the project. He was succeeded by David Beavis. Keith Patterson had responsibility for completing the project. The research team included Eden Cloutier, Hans Messinger, Norm Leckie, Regent Chamard, Richard Morrison, Roger Guillemette, Daniel Stripinis, Jeannine Bailliu, Daniel Lacroix, and Francine Proulx.

Several authored studies have been published by the Council since the last annual report:

The Full-Employment Objective in Canada, 1945-85: Historical, Conceptual and Comparative Perspectives, by Robert M. Campbell

Canadian Unemployment: Lessons from the 80s and Challenges for the 90s, by Surendra Gera

The Constitutional Division of Powers: An Economic Perspective, by Robin Boadway

Corporate Mergers and Acquisitions: Evidence on Profitability, by Abraham Tarasofsky and Ronald Corvari

Income Maintenance, Work Effort and the Canadian Mincome Experiment, by Derek Hum and Wayne Simpson

Earnings of Immigrants: A Comparative Analysis, by Arnold de Silva

The Public Sector: A Graphic Overview, by Sylvester Damus

All of these and earlier publications will be available from the Canada Communication Group – Publishing, Ottawa, Canada, KIA OS9.

As well, 13 working papers had been published at the end of March 1992 and more than 25 are to be published as part of the wind-down of the Council.

New Homes for Project Completion

The projects that are being transferred to new homes, where they will be completed over the next two years are as follows:

- **Governments' Impact on Competitive-ness**, which was initiated by the Prime Minister, will be completed at the School of Policy Studies at Queen's University. The Prime Minister asked the Council to undertake a "major project on the structure of government in Canada which would contribute to the public debate on how governments can achieve their objectives while effectively controlling costs to the private sector." The project engages the active participation of provincial and municipal governments and representatives of private sector organizations through an Advisory Committee. Stakeholders are also participating in a series of research seminars being held across Canada in 1992. The results of the project will be published over the next 18 months. A major conference is planned for early 1993 and the final report will be released in late 1993. The Project Director is Bryne Purchase.
- **Canada's Commercial Relations with the Pacific Rim**, funded mainly by the Canadian International Development Agency, will be completed at the John Deutsch Institute at Queen's University. It focuses on assessing the economic implications for Canada of the explosion of economic growth in the Pacific Rim and seeks to determine whether the rapid changes there have implications for Canada's trade, investment and commercial policies. The research will be completed by September. It will be disseminated through working papers or through a conference in the fall of 1992 followed by publication of the proceedings.
- **Cost Efficiency of the Canadian Health Care System** will be completed at a new centre of excellence to be established at the University of Ottawa. Developed in consultation with more than 100 stakeholders across Canada, and refined with the help of an Advisory Committee comprised of 16 members, the project will analyze the cost-effectiveness of the system and identifies the changes required in incentives and organization to improve cost-effectiveness. The project is being jointly funded by provincial governments, associations of health professionals and business, in addition to the federal government. The final report will be published in 1994. The Project Director is Douglas Angus.
- **Firm Strategy and Adaptation** is to be completed in the Analytical Studies Division of Statistics Canada. The project reviews changes in the Canadian industrial structure and examines strategies that firms are using to adapt to an environment in which trade liberalization, globalization and technological change are transforming the industrial landscape. The study will identify the causes and consequences of restructuring in the Canadian economy, examine the process of innovation and address specific issues such as the efficacy of strategic alliances, and the process of adoption and diffusion of technology. The research partners include Industry, Science and Technology Canada, Statistics Canada, Consumer and Corporate Affairs, Atlantic Canada Opportunities Agency, the Conference Board of Canada, Le Centre de Recherche en développement industriel et technologique, Université du Québec à Montréal, The Centre for International Studies, University of Toronto and University of Lethbridge. The final report will be published in the first half of 1993. The Project Director is John Baldwin.

- **Human Resources Management** is to be completed at the School of Industrial Relations at Queen's University. The project analyzes firms' strategies with respect to human resource management, and assesses the implications for their performance and hence for the well-being of all Canadians. With rapid global change, there is increasing recognition that human resource policies are a key to prosperity. There is growing concern that Canada's traditional approaches to industrial relations need to be restructured. Comparisons will be made to policies in the United States and elsewhere. The final report will be published early in 1994. The Project Director is Gordon Betcherman.

Further information on these projects can be obtained from the Queen's-University of Ottawa Economic Projects in Ottawa at (613) 567-7500



Judith Maxwell

As a society, Canadians need to be able to look at the longer term. We need to know where we have come from and where current actions might lead us if we are to cope with a context that is fragmented, overloaded, fastmoving, and therefore very complex.

1. **Fragmented.** We are a splintered society; there are too few bridging mechanisms between regions, between linguistic groups, between business and labour, between governments and the private sector. And every interest or region has its own advocates.
2. **Overloaded.** The agenda is overloaded at all levels of government. The Constitution, the recession and unemployment, industrial restructuring, technological change, environmental pressures, failing family structures and fragile community institutions overwhelm us.
3. **Fastmoving.** The pace of events has accelerated in recent decades. A new product or technology lasts a few years at best; companies and organizations are forced to adapt to a constantly changing set of pressures; distances have shrunk. The new competitors today are in Taiwan and South Korea; tomorrow – who knows? This contributes to overload and to fragmentation as everyone looks for a short-term solution for one problem, so they can focus on another.

This context makes it difficult to sort short-term symptoms from long-term problems. We live in a blur of instant information. Governments, business, labour and other leaders are constantly making choices with long-term impacts. They therefore need to know the long-range consequences of their actions.

The Economic Council of Canada was intended to help provide this long-range thinking. It did not do the whole job, nor did it do its work perfectly. But there are two functions that I think should be replaced as the Council disappears. One is the capacity to do systematic, original research. The other is its bridge-building capacity – providing a common information base for business, labour, governments and a whole spectrum of other groups in society.

Original, applied research

Research requires time and money. Time is required to compile data, analyze it and test the results; to link those results to other facts, then to assess the implications for the future. Money is required to pay the salaries of highly skilled people, the cost of data, communications and computers needed to put the story together. And who does that kind of work in Canada? Across the broad spectrum ranging from theory, to empirical testing, to policy analysis, to program design, and finally to implementation; there is no one group which can accomplish the full range.

The Research Spectrum



University researchers do in-depth research, but the academic reward system discourages applied economic research using Canadian data. University research falls primarily into the range of theory; there is limited empirical testing and virtually no effort to translate the results into policy. Furthermore, academics on their own tend to work in highly specialized areas.

Private research organizations focus primarily on public education and synthesis of the work of academics, Royal Commissions and others (including the Economic Council). Sometimes they initiate original research, but it is limited in scope and is not systematic or sustained. They do not have the mandate nor the capacity (critical research mass) to do in-depth empirical work aimed at the longer term. This situates private research organizations in the policy analysis segment of the research spectrum. They do not now have the research capacity to significantly re-orient their focus toward original, applied research. They could move in that direction, but would

need much more money and redefined mandates.

Government departments perform a combination of analysis and synthesis of existing work to inform Ministers. Although their work can be original and sustained, generally they do not have the resources, the time or the mandate to undertake medium- and long-term economic research. With fiscal restraint, many departments' capacity to do research has shrunk. Their research agendas are shaped by government priorities and, in general, the results are not available to the wider public.

Royal Commissions have, in the past, done valuable original research in testing theory against Canadian data. However, Royal Commissions are formed to address particular issues. When their work is completed, the assembled expertise is disbanded. Thus, research is not sustained and systematic and there is no institutional memory to help them link past experience easily to the present.

So, with the closing of the Council, a gap

has been created. Unless a private organization moves to fill that gap, Canadians will increasingly depend on research done in other countries. There will be no systematic efforts to test those ideas from other countries to see whether they are supported by Canadian data.

Other industrial countries use an array of institutions to do this kind of work. Some of the best work is done in the private sector in the United States and Europe, while in Japan and some parts of Europe it takes place in the public sector: there is no single formula.

Bridge-building

The second key gap to be filled is in bridge-building. Unlike most European countries and Japan, Canadian labour and management organizations are fragmented, and our federal structure means that the government sector is also fragmented. Then we must add the geographic and linguistic obstacles to coherent policy making. We also have an adversarial tradition in politics and in labour-management relations. As a result, partnerships and consensus will always be difficult, even though the Council's work has shown that partnerships are needed if we are to cope with economic and social challenges.

Partnerships and consensus are easier to develop if the stakeholders can refer to the same data base, available in both French and English. If they can agree on the facts, it is easier to work on solutions. Thus, it is important to have a common data base which is trusted as being nonpartisan, nonideological. The research findings of the Economic Council were used in both official languages by business and labour, by social advocacy groups – by people in all regions of the country.

Effective bridge-building only occurs if information flows in two directions. Successful independent research requires input from many interest groups to shape the research

agenda through problem definition, peer review, joint ventures in building data, surveys or case studies. In return, the network of interest groups gains access to in-depth research which they cannot produce themselves for lack of time, money, research skills or research management capacity.

The work of the Economic Council has been truly a public good. It provided knowledge that shaped the mind set of opinion leaders and decision makers. It therefore influenced their strategic planning, and their ability to work with each other. I am sure that another economic council will have to be created; my regret is that the assembled resources, both human and physical, are being dispersed.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have audited the statement of operations of the Economic Council of Canada for the year ended March 31, 1992. The financial statement is the responsibility of the Council's management. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the results of operations of the Council for the year ended March 31, 1992 in accordance with the accounting policies set out in Note 3 to the financial statement.

A handwritten signature in dark ink, appearing to read 'D. Meyers'.

D. Larry Meyers, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 10, 1992

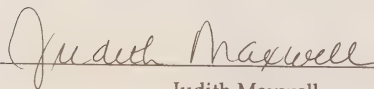
Economic Council of Canada

Statement of Operations for the year ended March 31, 1992 (Note 2)

| | 1992 | 1991 |
|---|-------------------|-------------------|
| | \$ | \$ |
| EXPENDITURE | | |
| Economic research and policy analysis | | |
| Salaries and employee benefits | 5,785,061 | 5,470,615 |
| Employee termination benefits | 26,199 | 39,199 |
| Professional and special services | 877,086 | 498,261 |
| Supplies, furniture and equipment | 590,169 | 544,294 |
| Travel, communication and publication | 223,546 | 188,233 |
| Rental, repair and maintenance of equipment | 26,011 | 26,660 |
| | 7,528,072 | 6,767,262 |
| Consultation and public information | | |
| Salaries and employee benefits | 1,990,758 | 1,904,134 |
| Employee termination benefits | 28,940 | 60,259 |
| Professional and special services | 205,145 | 136,094 |
| Travel, communication and publication | 146,668 | 149,116 |
| Council meetings | 97,283 | 102,370 |
| Supplies, furniture and equipment | 14,883 | 13,278 |
| Rental, repair and maintenance of equipment | 1,667 | 3,304 |
| | 2,485,344 | 2,368,555 |
| Administration | | |
| Salaries and employee benefits | 853,885 | 916,195 |
| Accommodation | 715,294 | 715,294 |
| Travel, communication and publication | 157,875 | 174,203 |
| Professional and special services | 81,423 | 120,642 |
| Supplies, furniture and equipment | 74,654 | 92,407 |
| Rental, repair and maintenance of equipment | 60,780 | 63,725 |
| Miscellaneous | 2,516 | 2,014 |
| | 1,946,427 | 2,084,480 |
| | 11,959,843 | 11,220,297 |
| REVENUE | | |
| Non-tax revenue | | |
| Refunds of previous years' expenditure | 6,145 | 13,785 |
| Miscellaneous | 75,176 | 5,191 |
| | 81,321 | 18,976 |
| Net cost of operations (Note 4) | 11,878,522 | 11,201,321 |

The accompanying notes are an integral part of this statement.

Approved by the Council:



Judith Maxwell
Chairman



Robert Woods
Director, Finance and Administration

Economic Council of Canada

Notes to the Statement of Operations

March 31, 1992

1. Authority and purpose

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule II of the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in the medium and long term in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Wind up of the Economic Council of Canada

In its February 25, 1992 Budget, the government announced its intention to close down the Economic Council of Canada. The relevant legislation, Bill C-63, was approved at second reading on Monday, May 5, 1992 and referred to a legislative committee the same day. Once passed, the legislation will come into force on the day to be fixed by order of the Governor in Council.

The Bill stipulates that the Minister of Industry, Science, and Technology may do all acts necessary to close the affairs of the Council. The Bill also provides for all rights, property, obligations and liabilities of the Council to be transferred to Her Majesty.

This has resulted in the pay out of separation benefits, retiring allowances, cash in lieu of training, relocation and travel as well as severance pay. The pay out to each employee is determined in accordance with a separation policy which was approved by Treasury Board. Also in accordance with Treasury Board policy, professional assistance is being provided. The maximum pay out is estimated at \$7.0 million in 1992-93.

3. Significant accounting policies

The Statement of Operations has been prepared in accordance with the reporting requirements and standards established by the Receiver General of Canada for departmental corporations. The most significant accounting policies are as follows:

(a) Expenditure recognition

All expenditure is recorded on the accrual basis with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Revenue recognition

Revenue is recorded on the cash receipts basis.

(c) Capital purchases

Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(d) Services provided without charge

Estimates of amounts for services provided without charge from Government departments are included in expenditure.

(e) Refunds of previous years' expenditure

Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

SEP 23 1992

